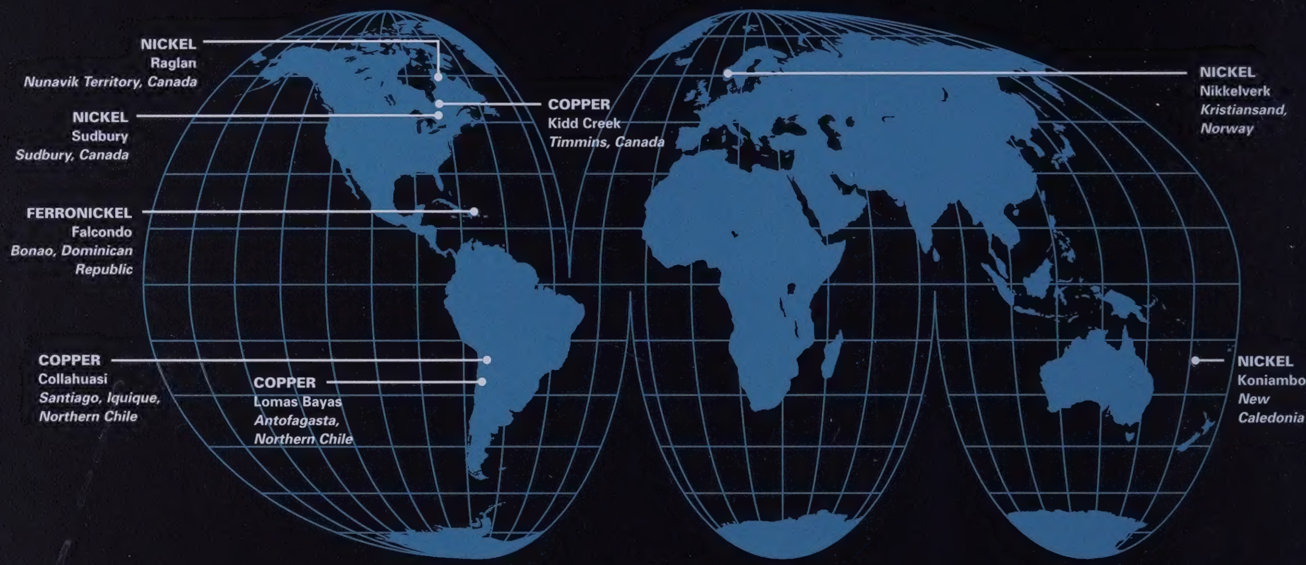
FALCONBRIDGE LIMITED

Annual Report 2002

ENVISIONING OPPORTUNITIES

OUR OPERATIONS



NICKEL

Sudbury (Sudbury, Ontario)

- Mines and mills nickel-copper ores from four mines (Craig, Fraser, Lindsley and Lockerby); smelts nickel-copper concentrate from Sudbury's mines and from Raglan, and processes custom feed materials.

Raglan (Rouyn-Noranda, Nunavik, Quebec)

- Mines and mills nickel-copper ores from open pits and an underground mine.

Nikkelverk A/S (Kristiansand, Norway)

- Refines nickel, copper, cobalt, precious and platinum group metals from Sudbury, Raglan and from custom feeds.

Falconbridge Dominicana, C. por A. (85.26%) (Bonao, Dominican Republic)

- Mines, mills, smelts and refines its own nickel laterite ores.

Custom Feed (Brussels, Belgium; Pittsburgh, Pennsylvania; Christ Church, Barbados)

- Acquires custom feeds for processing in Sudbury and Nikkelverk.

COPPER

Compañia Minera Doña Inés de Collahuasi S.C.M. (44%) (Santiago, Iquique and Northern Chile)

- Mines and mills copper sulphide ores into concentrate; mines and leaches copper oxide ores to produce cathodes.

Kidd Mining Division (Timmins, Ontario)

- Mines copper-zinc ores from the Kidd Mine.

Kidd Metallurgical Division (Timmins, Ontario)

- Mills, smelts and refines copper-zinc ores from the Kidd Mine and processes Sudbury copper concentrate and custom feed materials, including some Collahuasi feed.

Compañia Minera Falconbridge Lomas Bayas (Antofagasta and Northern Chile)

- Mines copper oxide ores from an open pit; refines into copper cathode through the solvent extraction-electrowinning process (SX-EW).

CORPORATE

Corporate Office (Toronto, Ontario)

Project Offices (Kone and Nouméa, New Caledonia; Brisbane, Australia)

Exploration Offices (Sudbury, Timmins and Toronto, Ontario; Laval, Quebec; Pretoria, South Africa; Belo Horizonte, Brazil; Brisbane, Australia)

Business Development (Toronto, Ontario)

- Searches worldwide for attractive investment opportunities to support Falconbridge's business plans.

Marketing and Sales (Brussels, Belgium; Pittsburgh, Pennsylvania; Tokyo, Japan)

- Markets and sells nickel, cobalt and other Falconbridge products worldwide.

Technology

- Conducts research, development and engineering at all operation sites.

CORPORATE PROFILE

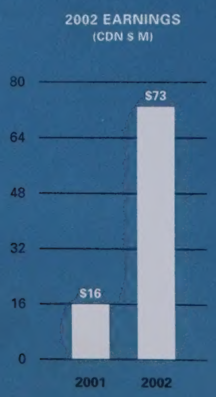
Falconbridge is a leading low-cost producer of nickel, copper, cobalt and platinum group metals. We are also a major recycler and processor of metal-bearing materials. Falconbridge is committed to improving shareholder returns through the responsible and profitable growth of our core nickel and copper businesses. We will accomplish this by focusing on high-quality and long-life ore bodies, by optimizing returns from our current assets, and by preparing to take advantage of market opportunities when they present themselves.

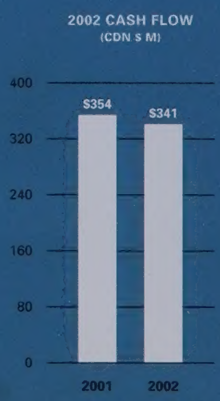
We target a minimum after-tax return on equity of 15% and an 18% return on net assets. Falconbridge entered the mining business in 1928 and today employs 6,400 people in 13 countries. Our common shares are listed on the Toronto Stock Exchange under the symbol FL. As of December 31, 2002, Falconbridge was owned by Noranda Inc. of Toronto (59.5%) and by other investors (40.5%).

2002 OPERATING HIGHLIGHTS

Falconbridge advanced its development programs at Collahuasi, Kidd Creek and Lomas Bayas, ensuring that our copper production levels are maintained for the next 20 years. Now, our focus turns to growth opportunities in nickel, including the advancement of the Koniambo, Nickel Rim South, Montcalm and Fraser Morgan projects.

- Construction began on new grinding circuit at Ujina concentrator as part of the Ujina to Rosario transition project, increasing Collahuasi's concentrator design capacity to 110,000 tonnes per day and compensating for expected decline in ore grade in coming years.
- Development work at Kidd Mine D continued on schedule and on budget, with shaft sinking, ramp development and hoist installation underway. Production expected to begin in late 2004.
- Lomas Bayas had record year, producing 59,300 tonnes of copper.
- Exceptional drill results released from Nickel Rim South property in Sudbury. Current resource estimates stand at 6.3 million tonnes grading 1.7% nickel and 3.4% copper, with significant showings of platinum and palladium.
- Montcalm feasibility study neared completion. If approved, production could begin in late 2004, adding 8,000 tonnes of nickel production annually.
- Koniambo project advanced with completion of pre-feasibility study. Bankable feasibility study will begin later in 2003, positioning partners to make development decision in late 2004.
- Falconbridge and Noranda intensified efforts to improve operational and financial performances of North and South American copper businesses and corporate office activities. Working together, cost savings of $8 million have been identified, with further savings anticipated.
- Over 375 employees received Six Sigma training and stage-gate process introduced to enhance efficiency and effectiveness of allocation and management of capital expenditures, to ensure returns are maximized.



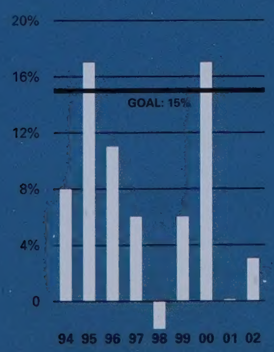


2002 FINANCIAL HIGHLIGHTS

The world economic expansion continued but at a much slower pace than originally anticipated. Nickel outperformed all other base metals, with prices rising 25% over the year. While Western demand for copper remained weak, the market outlook is improving. For 2003, we are cautiously optimistic that we will realize higher metal prices on the back of an economic recovery in the second half of the year.

MILLIONS, EXCEPT PER SHARE DATA	2002	2001
OPERATING HIGHLIGHTS		
Revenues	**$ 2,394**	$ 2,138
Operating income	**137**	26
Earnings	**73**	16
Cash provided by operating activities	**341**	354
Capital expenditures and deferred project costs	**358**	348
FINANCIAL POSITION AT DECEMBER 31		
Cash and cash equivalents	**260**	198
Working capital	**627**	482
Total assets	**5,204**	5,069
Long-term debt	**2,023**	1,867
Shareholders' equity	**2,285**	2,280
Return on common shareholders' equity	**3%**	0%
Return on net assets	**4%**	1%
Ratio of net debt to net debt plus equity	**44%**	42%
PER COMMON SHARE		
Earnings	**$ 0.34**	$ 0.02
Cash provided by operating activities	**1.86**	1.93
Book value	**11.75**	11.76
Shares outstanding	**177.6**	177.0

RETURN ON EQUITY
(7% SINCE IPO)



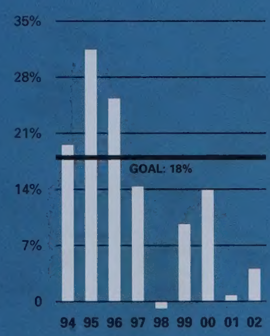
INVESTMENT GRADE CREDIT RATINGS

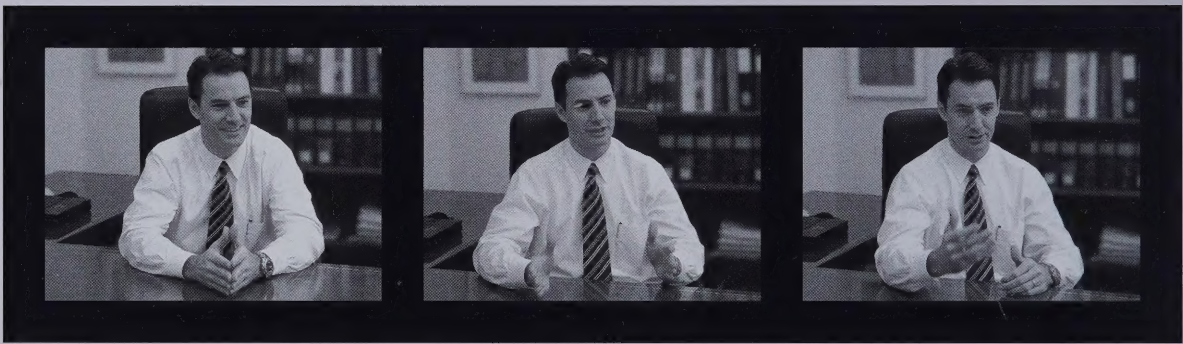
Moody's: Baa3

Standard & Poor's: BBB–

Dominion Bond Rating Service: BBB High

RETURN ON NET ASSETS
(13% SINCE IPO)





POSITIONED FOR GROWTH

Aaron Regent, our new President and Chief Executive Officer, provides an outlook for nickel and copper, and outlines the progress our operations made on improving their performance, as well as his strategy for increasing shareholder value at Falconbridge.

The past year was a challenging one for Falconbridge as we continued to adapt to and operate in an uncertain economic climate. This uncertainty negatively impacted demand for some of our products, leading to depressed metal prices, particularly for copper and zinc. Lower treatment charges for purchased concentrates at our Kidd Metallurgical facilities also impacted our profitability. The bright spot was nickel where positive fundamentals supported the nickel price over the course of the year.

As we look forward, we are optimistic that we will begin to see a broader recovery in metal prices. However, the timing of this recovery will be dependent on an overall improvement in the economy and resolution of uncertainty in the Middle East. In the longer term, we are very optimistic about the future for both nickel and copper due to positive demand growth rates and the increased challenge the industry faces in profitably adding new supply.

Our focus continues to be on nickel and copper, which offer the best fundamentals of all the base metals. Future demand is expected to be strong, particularly from China. Over the past five years, China has surpassed the United States as the world's largest consumer of copper, with consumption growing by 14% annually. China's nickel consumption has also grown rapidly, increasing by 17% annually. These growth rates are expected to continue as China develops its infrastructure and increases its consumption of durable goods. To meet its requirements, China must continue importing substantial quantities of both copper and nickel.

The mining industry's ability to meet future demand will become an increasing challenge. Expansion of current nickel production is limited and therefore future demand must be met with new projects. Copper expansion is possible but will largely compensate for a decrease in ore grades. For both nickel and copper, new projects are limited and the large size and scale of these projects, along with more stringent environmental standards, will increase the time required to construct and bring them into operation.

Falconbridge is well positioned to benefit from this positive outlook. We have a substantial asset base of high-quality copper and nickel operations with upside potential. We also have one of the most promising nickel projects in the world at Koniambo. And in copper, Collahuasi has further expansion potential.

Our strategy is to maximize the returns from our existing operations, advance the development of new growth opportunities in nickel and copper, and to maintain a strong financial position. Our fundamental goal is to maximize returns for shareholders with a 15% return on equity target.

In 2002, we made meaningful progress toward achieving these goals.

2002 PERFORMANCE VERSUS OBJECTIVES

OBJECTIVE 1

Forge stronger links with potential partners in the mining industry and accelerate the delivery of additional synergies with Noranda

PERFORMANCE

Closer ties with Noranda established and further links developed with numerous junior exploration companies on nickel and pgm properties

OBJECTIVE 2

Advance development of Kidd Mine D and keep project on budget and on schedule

PERFORMANCE

Kidd Mine D remains on target to begin production in late 2004

OBJECTIVE 3

Achieve annual copper production rate of 58,000 tonnes at Lomas Bayas

PERFORMANCE

Lomas Bayas produced a record 59,300 tonnes of copper cathode in 2002

Maximizing returns from existing assets

Refined nickel production from our Integrated Nickel Operations (INO) was 68,500 tonnes. Production was affected by lower volumes of available feeds and was below our annual refining capacity of 85,000 tonnes. We are focused on increasing the utilization rates of our smelting and refining facilities by increasing production from our own assets, acquiring additional properties and custom feeds, and by adding reserves, particularly in Sudbury and Raglan, through exploration.

The Nickel Rim South discovery continues to reinforce the potential of the Sudbury Basin and will help us maintain our current production levels into the future. The Montcalm property, acquired in 2001, is moving forward and a development decision is expected in 2003. When in operation, Montcalm will add 8,000 tonnes of nickel annually, beginning in late 2004.

In 2003 we expect our INO production to increase to 72,000 tonnes and to 77,000 tonnes in 2004. While still short of our goal, we are closing the gap.

Falcondo's profitability continues to be negatively impacted by high oil prices. Our efforts are focused on increasing energy efficiency to help manage these costs. In 2003 we expect to increase Falcondo's production by 15% to 27,000 tonnes.

In copper, we achieved record levels of production – 13% higher than last year – at a very competitive consolidated cash cost of U.S.$0.42 per pound.

Over the next two years we are investing significant capital in our copper assets to further develop available resources and maintain our current production levels. At Collahuasi, the transition project and mill expansion remains on schedule with completion targeted for mid-2004. Once finished, production levels will be restored to around the 400,000-tonne level. At Kidd, the development of Mine D is 40% complete and will be finished in late 2004. Mine D will extend the mine life of Kidd to 2024.

Improving returns

We are also focused on making our operations more efficient. Six Sigma, a performance-enhancing program made famous by General Electric, is now being widely applied across Falconbridge. To date, over 375 people have received training and that number will expand to over 600 by the end of 2003. We are also using Six Sigma tools to improve the selection and management of capital expenditures.

In addition, we are working more closely with Noranda to capture cost-saving opportunities and operational enhancements. In Toronto, we are sharing corporate support services to reduce costs. To improve efficiencies at our Kidd Metallurgical facilities, we are working closely with Noranda's Horne smelter and CCR copper refinery to coordinate operating

2002 PERFORMANCE VERSUS OBJECTIVES (CONT'D)

OBJECTIVE 4

Ensure Koniambo is in position to complete bankable feasibility study in 2003

PERFORMANCE

Bankable feasibility study scheduled for third quarter of 2003

OBJECTIVE 5

Begin expansion of Collahuasi milling capacity in line with market needs

PERFORMANCE

Construction of new grinding circuit at Ujina concentrator approved in late 2002 and mechanical completion scheduled for June 2004

OBJECTIVE 6

Fill INO capacity with most profitable feeds

PERFORMANCE

Accessed profitable feeds from Sudbury mines, Raglan and custom feeds

OBJECTIVE 7

Continue to increase INO reserve base

PERFORMANCE

Nickel Rim South, Fraser Morgan and Montcalm added to Sudbury's resources

activities, as well as feed procurement and supplies, and to share our technical and operating resources. In South America, our Lomas Bayas copper mine is working closely with Noranda's Altonorte copper smelter to achieve synergies in logistics, procurement and sulphuric acid. We have identified savings for Falconbridge of $8 million annually, with further benefits anticipated.

Growth opportunities – Koniambo

The most significant growth opportunity in our nickel business is the development of the Koniambo property. Koniambo is a world-class resource and on completion, it would increase Falconbridge's nickel production by 30,000 tonnes per year.

The pre-feasibility study is largely completed and it continues to support the attractive economics of the project. A bankable feasibility study will begin in the third quarter of 2003, with a development decision expected in late 2004.

Our financial position

During the year, debt levels increased but our liquidity remains high. We renewed our corporate credit facilities, as well as our Lomas Bayas and Collahuasi project loans, and accessed the U.S. debt markets successfully, issuing new 10-year corporate debentures.

For 2003, we are optimistic that we will realize higher metal prices, particularly for nickel. With increased nickel production and copper production similar to 2002 levels, we expect an improvement in our earnings and cash flows. Capital expenditures are estimated to be $600 million and will be funded by increased cash flow from operations, cash on hand and credit facilities. Current debt levels are higher than our targets but continue to be manageable, particularly against a backdrop of improved metal prices. Our objective is to maintain our investment grade rating. Should the anticipated improvement in metal prices not materialize, consideration will be given to deferring some expenditures into future years.

Conclusion

The future for Falconbridge is bright. We are positioned to benefit from an improvement in future metal prices and continue to develop attractive growth opportunities. We remain committed to responsibly maximize the returns we deliver to shareholders. Our ability to deliver on this objective comes down to the thousands of people working within the company. I want to take this opportunity to thank them for their dedication, support and enthusiasm.

Aaron Regent
President and
Chief Executive Officer

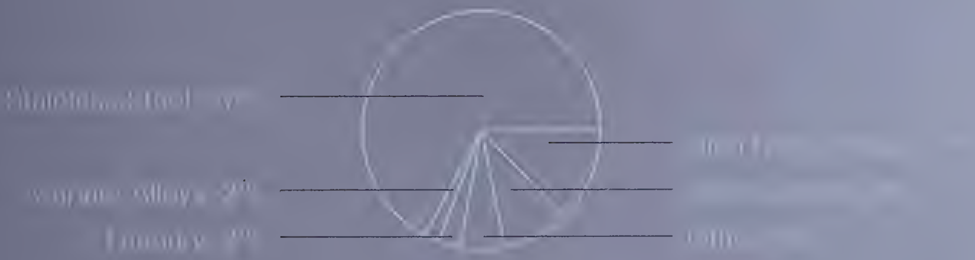
2003 OBJECTIVES

- **Achieve efficiency, production and cost objectives set by each operation**
- **Increase asset utilization within INO by increasing profitable feed volumes**
- **Review Montcalm feasibility study and make development decision on this nickel deposit**
- **Begin Koniambo bankable feasibility study**
- **Grow nickel resource base through exploration, acquisitions, business partnerships and technology**
- **Improve profitability of Kidd through cooperative activities with Horne smelter and CCR refinery**
- **Advance development of Kidd Mine D and Collahuasi expansion and keep projects on budget and on schedule**
- **Deliver cost savings and increased profits by working with Noranda and other mining companies**

OPPORTUNITIES IN **NICKEL**

Jet engines, power plants, medical instruments, satellites, electronics. All these things have one element in common: **nickel**. World consumption of nickel, which is mainly used by stainless steel makers, is increasing at an exceptional rate. Falconbridge is well positioned to take advantage of these tremendous opportunities.

First Uses of Nickel



Consumption of Stainless Steel

WE UNCOVERED ONE OF THE **HIGHEST GRADE DEPOSITS EVER FOUND** IN THE SUDBURY BASIN AT NICKEL RIM SOUTH.

[illegible] nickel projects we're working on. [illegible] Montcalm and Fraser Morgan. [illegible] increase its production of nickel [illegible] this important metal.

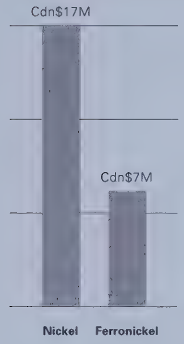
Sudbury Basin

Nickel Rim South yields exceptional drill results
A key focus is to increase Falconbridge's ore reserve base. By refocusing our efforts on small and medium size targets in the Sudbury Basin, we've identified two key properties near our existing facilities. Nickel Rim South's resources now stand at 6.3 million tonnes grading 1.7% nickel and 3.4% copper, with significant showings of platinum and palladium. By the end of June 2003, we should be in a position to decide whether to move forward with shaft sinking. We are also encouraged by an underground exploration drilling program we have underway near the Fraser Morgan resource.

Integrated Nickel Operations (INO) aim to profitably optimize smelting and refining capacities
In order to meet this challenge, we must intensify our focus on securing ownership of resources and custom feed. This objective will be met through resource acquisition, joint ventures, exploration opportunities, the further optimization of Raglan and growth in custom feeds.

The Montcalm property near Timmins is another attractive property in our portfolio. Montcalm's feasibility study is nearing completion and if approved, production could begin to flow into the refinery starting in late 2004 which would add 8,000 tonnes of nickel production annually.

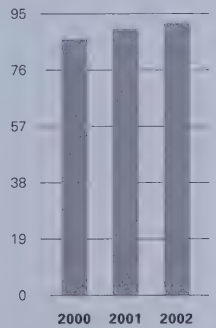
$24M IN ADDITIONAL REVENUES FROM NICKEL PREMIUMS IN 2002



Nickel objectives for 2003

- **Achieve efficiency, production and cost objectives set by each operation**
- **Increase asset utilization within INO by increasing volumes from Sudbury, Raglan and custom feeds**
- **Review Montcalm feasibility study and make development decision**
- **Begin Koniambo bankable feasibility study**
- **Grow nickel resource base through acquisitions, exploration, business partnerships and technology**

REFINED NICKEL PRODUCTION IS INCREASING
(000s TONNES/YEAR)



Falcondo is a major producer of ferronickel and provides a direct link to stainless steel markets
With the rapid growth in stainless steel production, Falcondo's ferro-nickel production strongly positions us in this important market. The stand-alone nature of this facility also provides us with the flexibility to take ferronickel production out of the market during periods of low nickel prices. This enables us to manage our reserves for the long-term benefit of all of our stakeholders.

Significant progress made on advancing our New Caledonian property
The pre-feasibility study was completed this year with a bankable feasibility study to begin later in 2003, positioning Falconbridge and its joint venture partner Société Minière du Sud Pacifique (SMSP) to make a development decision in late 2004. Should it proceed, the 60,000-tonne-per-year nickel-in-ferronickel project would enter production in 2008.

The project's strength rests on the size and quality of its resource and its substantial expansion potential – at a grade of 2.15%, Koniambo represents one of the world's best undeveloped nickel laterite deposits. The choice of a proven smelting process with modern technology and equipment will help reduce project risk and will also support a rapid and successful start-up. Strongly endorsed by government and local community leaders, Koniambo will be operated respecting community, cultural and environmental values.

OPPORTUNITIES IN COPPER

Cell phones, satellites, cars, high-speed Internet and electronics. All these things have one element in common: **copper**. World consumption of copper is increasing at a healthy rate of over 3% annually. Falconbridge is well positioned to benefit from this growth and take advantage of market opportunities.

First Uses of Copper

Consumption of Copper

WE HAVE MAINTAINED OUR POSITION AS A **LOW-COST COPPER PRODUCER,** OPERATING BELOW THE INDUSTRY AVERAGE.

As the market outlook for copper improves, we remain focused on advancing our development programs at our three copper operations – Kidd Creek in northern Ontario and Collahuasi and Lomas Bayas, both located in northern Chile. These development projects will ensure our copper production levels are maintained for the next 20 years.

Lomas Bayas

Collahuasi posts another strong year

Collahuasi continues to be a strong performer, exceeding targeted production and operating costs. This continues a track record of exceptional performance and an impressive record of continuous improvement. Since its start-up in 1999, ore grades have fallen by 22%, but copper in concentrate production has only fallen by 3%. In addition, the oxide plant is running 20% ahead of design capacity. And, cash operating costs remain very competitive at around U.S.$0.39 per pound.

In 2002, the Collahuasi Board approved the construction of a new grinding circuit at the Ujina concentrator as part of the Ujina to Rosario transition project. This project will increase Collahuasi's concentrator design capacity to 110,000 tonnes per day from 60,000 tonnes per day, compensating for the expected decline in ore grade. The total capital cost of the project is estimated at U.S.$654 million, with Falconbridge's 44% share of this cost totalling U.S.$288 million. The project is scheduled to achieve mechanical completion in June 2004.

Lomas Bayas producing beyond expectations

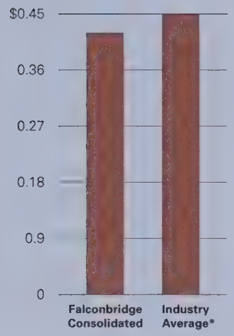
This Chilean mine has been a successful acquisition, meeting both its production and cost targets. Purchased in 2001 at 60% of its original construction cost, Lomas Bayas has continued to increase its production output and lower its costs. The potential development of the nearby Fortuna de Cobre copper deposit – which Falconbridge has the right to retain for U.S.$15 million – is currently under review. The operation recently agreed to purchase 100% of its sulphuric acid from Noranda's nearby Altonorte smelter and the two sites will continue to seek opportunities to coordinate their business activities.

Kidd Creek focuses on improving profitability

This asset, along with Noranda's Horne smelter and CCR refinery, has struggled this year as low copper and zinc prices, as well as low treatment and refining charges for feed have reduced profitability. In response, the management teams at Falconbridge and Noranda are focused on improving the overall profitability of these sites through combined cost reduction initiatives, materials management activities and capital expenditure rationalization.

At the Kidd Mine, development work at Mine D continued on schedule and on budget, with shaft sinking, ramp development and hoist installation underway. The mine will give access to an additional 10 million tonnes of reserves and 14 million tonnes of resources. Once Mine D is in full production, total Kidd Mine annual ore production will be back at the 2.4 million tonne level.

2002 LOW OPERATING CASH COSTS
(U.S.$/LB)

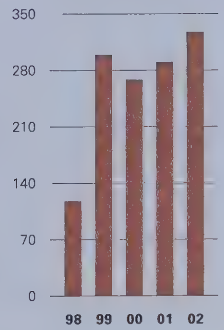


*Source: Brook Hunt & Associates Ltd./ Falconbridge Limited

Copper objectives for 2003

- **Achieve efficiency, production and cost objectives set by each operation**
- **Improve profitability of Kidd Creek through cooperative activities with Horne smelter and CCR refinery**
- **Advance development of Kidd Mine D and Collahuasi expansion and keep projects on budget and on schedule**
- **Maximize production at Lomas Bayas and continue evaluation of Fortuna de Cobre development**

COPPER PRODUCTION IS INCREASING
(000s TONNES/YEAR)



SUMMARY OF MINERAL RESERVES AND MINERAL RESOURCES[1]

Operation	Percentage Ownership	Category	Thousand Tonnes	% Nickel	% Copper	% Zinc	g/t Silver
Sudbury							
		Total	17,126	1.33	1.28	–	–
Raglan							
		Total	18,109	2.88	0.79	–	–
Falcondo[2]							
		Total	64,120	1.15	–	–	–
Kidd Creek							
		Total	23,694	–	2.11	6.30	66
Lomas Bayas							
		Total	397,349	–	0.32	–	–
Collahuasi[2]							
		Total	1,838,748	–	0.92	–	–
Sudbury							
		Total	16,833	2.38	1.10	–	–
Raglan							
		Total	2,876	1.95	0.72	–	–
Falcondo[2]							
		Total	13,840	1.53	–	–	–
Kidd Creek							
		Total	100	–	2.96	6.79	50
Lomas Bayas							
		Total	171,361	–	0.27	–	–
Collahuasi[2]							
		Total	477,971	–	0.63	–	–
		Inferred	1,840,000	–	0.72	–	–

Notes: 1. The mineral reserve and resource estimates are prepared in accordance with the "CIM Standards On Mineral Resources and Mineral Reserves, Definitions And Guidelines", adopted by CIM Council on August 20, 2000, using classical and/or geostatistical methods, plus economic and mining parameters appropriate to each project.
2. The mineral reserves and resources at Collahuasi and Falcondo are shown on a 100% basis.
There are no known environmental, permitting, legal, taxation, political or other relevant issue that would materially affect the estimates of the mineral reserves.
The mineral resources have reasonable prospects for economic extraction but have not yet had complete formal evaluation, or do not have demonstrated economic viability under current conditions.
The mineral reserve and mineral resource estimates are compiled and verified by Chester Moore, Director, Mineral Reserve Estimation and Reporting, a member of the Professional Geoscientists of Ontario with 30 years experience as a geologist
The mineral reserves and resources at Collahuasi are estimated and provided by the operator of the joint venture based on a copper price of $U.S.0.95. They are estimated and classified to industry standards following the Australasian Institute of Mining and Metallurgy's Joint Ore Reserve Committee code. These estimates have been restated to conform to the latest CIM mineral reserve and resource definitions. The estimates are inspected annually by Chester Moore.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In 2002, as a result of higher metal prices and higher sales volumes, Falconbridge achieved net earnings of $73.4 million as compared to $16.0 million in 2001. Cash flow from operations before working capital changes was $411.5 million compared with $258.3 million in 2001. Our objective is to deliver a 15% return on equity to shareholders over the commodity price cycle.

OVERVIEW

Falconbridge's strategy remains focused on the exploration, development and production of nickel and copper metals. This is based on nickel's and copper's positive fundamentals and high growth rates, as well as Falconbridge's strong competitive position.

Over the cycle, our financial objective is a 15% return on equity and an 18% return on net assets. Our objective is to maintain a conservative capital structure and investment grade credit ratings.

In 2002, as a result of higher metal prices and higher sales volumes, Falconbridge achieved net earnings of $73.4 million as compared to $16.0 million in 2001. Cash flow from operations before working capital changes was $411.5 million compared with $258.3 million in 2001.

Since the Initial Public Offering (IPO) in 1994, Falconbridge has achieved an average return on net assets of 13%, which is below our 18% target. Low metal prices negatively impacted our returns particularly for copper, where substantial amounts of new capital have been invested from 1998 to 2002 – a period of depressed copper prices. Over the same period, our return on equity has been 7%, again largely impacted by low metal prices.

In 2002, Falconbridge advanced its development programs at Collahuasi, Kidd Creek and Lomas Bayas, ensuring that our copper production levels are maintained for the next 20 years. In particular, work continued on the Mine D project at Kidd Creek and on the expansion of the Collahuasi mill. Going forward, our focus turns to growth opportunities in nickel, including the advancement of the Koniambo, Nickel Rim South, Montcalm and Fraser Morgan projects.

The Corporation believes that financial flexibility is important and plans for the cyclical nature of the business.

In 2002, the net debt to net debt plus equity increased to 44% from 42%. The average net debt to net debt plus equity ratio since the IPO is 31%. Working capital stood at $626.6 million and cash resources were $259.9 million at December 31, 2002.

Falconbridge has significant liquidity and financial flexibility. We have an active Canadian commercial paper program which is supported by cash and unused Credit Facilities. At December 31, 2002, the Corporation had $259.9 million of cash and cash equivalents and $153.9 million of commercial paper and bank borrowings outstanding. The Corporation's Credit Facilities total U.S.$415 million. In addition, the Corporation has no major debt maturities until 2005.

We are also working more closely with Noranda to capture cost-saving opportunities and operational enhancements. In Toronto, we are sharing corporate support services to reduce costs. To improve efficiencies at our Kidd Metallurgical facilities, we are working closely with Noranda's Horne smelter and CCR copper refinery to coordinate operating activities, as well as feed procurement and supplies, and to share our technical and operating resources. In South America, our Lomas Bayas copper mine is working closely with Noranda's Altonorte copper smelter to achieve synergies in logistics, procurement and sulphuric acid. We have identified savings for Falconbridge of $8 million annually, with further benefits anticipated.

Procedures are in place to record and ensure that transactions between Falconbridge and Noranda are on commercial terms. The Committee of Independent Directors of the Board of Falconbridge Limited review these transactions to ensure they are conducted on terms which are fair and equitable to Falconbridge and reflect fair market terms.

This discussion provides a review of the financial performance and position of Falconbridge for the years ended December 31, 2002 and 2001. It should be read in conjunction with the Corporation's audited financial statements and notes to those statements. All amounts are expressed in Canadian dollars, except where indicated. In addition, this discussion contains certain forward-looking statements regarding Falconbridge's businesses and operations. Actual results may differ materially from those contemplated by these statements depending on, among others, such key factors as supply and demand for metals to be produced, production levels, exchange rates and metals prices.

RESULTS OF OPERATIONS

Earnings for the year ended December 31, 2002 increased by $57.4 million (32 cents per common share) from 2001 to $73.4 million (34 cents per common share).

Operating income of $136.7 million in 2002 increased by $110.6 million from $26.1 million in 2001. The significant increase in operating income was attributable to the following factors:

- Revenues for the year ended December 31, 2002 increased by $255.8 million to $2,394.0 million. The increased revenues result from higher realized prices for nickel and copper offset by lower zinc and cobalt prices; higher sales volumes for nickel, copper, zinc and cobalt which increased by 9%, 15%, 5% and 27%, respectively; and a more favourable exchange rate. Lower deliveries and lower prices for platinum and palladium offset the impact of higher sales volumes and prices of gold and silver resulting in a decrease of $66.3 million in total precious metals revenues during the year ended December 31, 2002.
- Costs of metal and other product sales increased by $139.5 million.
- Selling, general and administrative costs increased by $15.1 million.
- Depreciation and amortization costs of $348.7 million increased by $17.9 million compared with $330.9 million in 2001.
- Exploration, research and process development expenditures of $46.6 million were $9.8 million lower than in 2001.
- Foreign exchange gains of $13.3 million in 2002 compared to a loss of $1.0 million in 2001.
- Other expenses of $6.1 million compared with $9.3 million in 2001. The decrease in expense of $3.2 million is primarily due to a reduced loss of $9.9 million from futures/options and forward metal positions offset by an increase of $6.7 million in other expenses. The reduced loss from futures/options and forward metal positions in the current year reflects the non-recurrence of mark-to-market valuation losses recorded in 2001 on call options for nickel and copper.

Income and expenses were provided from the following non-operating sources:

- Interest of $88.2 million in 2002 was $1.5 million higher than 2001. Lower interest rates were offset by slightly higher average net debt balances.
- Income and mining tax recovery of $24.8 million compared with a recovery of $75.4 million in 2001. Further details concerning income taxes can be found in note 7, page 40 of this annual report.
- Losses at Falcondo in 2002 were lower than in 2001, reducing the non-controlling interest in the loss of subsidiaries by $1.1 million.

Earnings in 2002 were not affected by unusual charges as occurred in 2001. A strike at the Sudbury Operations reduced earnings in 2001 by $35.6 million. The 2001 results also included a tax benefit of $20.0 million.

The following table summarizes the results of operations for 2002 and 2001, including contributions from the reportable segments:

Year ended December 31 (Millions)	2002	2001
Nickel operations		
Integrated Nickel Operations (INO)	**$ 146.6**	$ 84.6
Falconbridge Dominicana, C. por A.	**1.0**	(18.2)
	147.6	66.4
Copper operations		
Kidd Creek Operations	**(77.8)**	(64.0)
Collahuasi	**132.1**	122.4
Lomas Bayas	**28.0**	7.6
	82.3	66.0
Corporate and other	**(93.2)**	(106.4)
Operating Income	**136.7**	26.0
Interest	**88.2**	86.6
Income and mining taxes	**(24.8)**	(75.4)
Non-controlling interest	**0.1**	1.2
Earnings for the year	**73.4**	16.0
Dividends on preferred shares	**12.6**	12.1
Earnings attributable to common shares	**$ 60.8**	$ 3.9

NICKEL OPERATIONS:

Falconbridge is the third-largest producer of refined nickel in the world, accounting for roughly 8% of world supply in 2002. Nickel operations include: the Integrated Nickel Operations (INO) which includes mines and plants in Sudbury and Raglan in Canada, a refinery at Nikkelverk in Norway and a significant custom feed business; and Falcondo, a ferronickel operation in the Dominican Republic.

Operating income of the nickel business was $147.6 million in 2002 compared with $66.4 million in 2001. Refined nickel production was 91,800 tonnes in 2002 compared with 89,900 tonnes in 2001. The operating cash cost per pound of nickel was U.S.$2.19 per pound for all of Falconbridge's mined nickel compared with U.S.$1.86 in 2001.

Integrated Nickel Operations (INO)

The INO includes mines and plants in Sudbury and Raglan in Canada, a refinery at Nikkelverk in Norway and a significant custom feed business.

	2002	2001
Sales (tonnes)		
Nickel	**71,200**	65,200
Copper	**54,500**	34,500
Cobalt	**2,900**	2,300
Revenues ($ millions)	**1,088**	969
Operating cash cost		
(U.S.$ per pound of nickel)*	**1.96**	1.52
Operating income ($ millions)	**147**	85

*Operating cash cost includes all cash production and selling costs, net of by-product credits, but excludes interest, corporate, exploration costs and custom feed profits. Continuing costs incurred during shutdowns or strikes are excluded.

Revenues: Sales volumes of base metals increased in 2002. In 2001, volumes were affected by reduced productivity related to a strike by the production and maintenance workers at Sudbury Operations. Realized nickel prices in 2002 increased by 13%, copper prices remained the same, and cobalt prices decreased by 27%. Precious metals revenues decreased by $74.0 million. In 2002, consolidated revenues for the INO increased to $1,088.2 million from $968.7 million in 2001.

Costs: The operating cash cost (after by-product credits) of producing a pound of nickel from the mines in the INO, was U.S.$1.96 per pound of nickel. The U.S.$0.44, or 29%, increase over 2001 costs was the result of lower by-product credits and higher unit operating costs.

Operating income: The INO's 2002 operating income was $146.6 million compared with $84.6 million for 2001. The $62.0 million increase was attributable to the impact of increased sales volumes, higher nickel prices, the Cdn$/U.S.$ exchange rate, and the impact of strike costs on 2001 results, which were partially offset by lower precious metals revenues and higher unit production costs.

Production: Ore production at the Sudbury mines was 18% higher than in 2001. Nickel in concentrate production increased from 25,200 tonnes in 2001 to 27,800 tonnes in 2002 but some of the ore tonnage increase was offset by lower ore grades. Nickel in concentrate production in Sudbury in 2003 is planned at 26,500 tonnes.

At Raglan, nickel in concentrate production in 2002 remained unchanged at 24,600 tonnes. Production of nickel in concentrate in 2003 is planned at 24,500 tonnes as it is expected that the mine will return to an annual production level of approximately 950,000 tonnes of ore from 868,000 tonnes in 2001.

Productivity at Raglan, measured by the equivalent units of metals produced per hour worked, improved by 5% as the impact of higher ore grades more than offset the decline in ore tonnage.

At the smelter, nickel in matte production increased from 54,900 tonnes to 57,900 tonnes in 2002. Production records were established for matte production during the fourth quarter. Production of nickel in matte in 2003 is planned at 57,000 tonnes.

Production of nickel at the refinery in Kristiansand was 68,500 tonnes in 2002 or roughly the same as in 2001. Based on planned increases in custom feed deliveries and forecast mine feeds, production of nickel in 2003 is planned at 72,000 tonnes. Fourth quarter 2002 production of nickel, cobalt and precious metals established new production records. These production levels confirmed the refinery's annual production capacities of 85,000 tonnes for nickel, 4,500 tonnes for cobalt and 38,000 tonnes for copper.

Productivity at the refinery, measured by the equivalent units of metals produced per hour worked, improved by 4% as a result of increased throughput.

During 2002, a new collective agreement was reached with the production and maintenance workers at Raglan.

INTEGRATED NICKEL OPERATIONS

	2002			2001		
	Ore tonnes (x 1,000)	Ni %	Cu %	Ore tonnes (x 1,000)	Ni %	Cu %
Production						
Sudbury – Mine						
Craig	**980**	**1.77**	**0.57**	892	1.94	0.69
Fraser	**639**	**1.08**	**3.48**	581	1.26	2.52
Lindsley	**418**	**1.19**	**1.16**	317	1.13	1.18
Lockerby	**258**	**2.10**	**1.18**	156	1.99	1.09
Total mined	**2,295**			1,946		
Total – ore processed	**2,295**	**1.51**	**1.56**	1,946	1.61	1.35
Raglan mine	**868**	**3.35**	**0.97**	961	2.98	0.91

	Ni	Cu	Co	Ni	Cu	Co
Metal in concentrate (tonnes)						
Sudbury mine output	**27,833**	**31,050**	**690**	25,226	22,858	630
Raglan mine output	**24,636**	**6,500**	**386**	24,570	6,915	318
Metal in copper concentrate	**94**	**21,666**	**—**	60	14,009	—
Smelter, refinery						
Smelter (tonnes)						
Mines – Sudbury	**28,243**	**11,166**	**691**	24,534	8,890	590
– Raglan	**25,211**	**6,617**	**370**	26,914	7,165	419
Custom	**4,400**	**2,735**	**894**	3,444	1,837	779
Total	**57,854**	**20,518**	**1,955**	54,892	17,892	1,788
Refinery (tonnes)						
Mines – Sudbury	**27,170**	**11,108**	**621**	22,059	7,144	496
– Raglan	**24,305**	**6,741**	**344**	29,375	7,818	439
Custom	**17,055**	**12,783**	**3,029**	16,787	11,760	2,379
Total	**68,530**	**30,632**	**3,994**	68,221	26,722	3,314

	Ni	Cu	Co	Ni	Cu	Co
Sales (tonnes)						
Mines – Sudbury	**28,035**	**34,352**	**637**	20,104	15,185	480
– Raglan	**25,250**	**6,905**	**358**	29,419	7,599	446
Custom	**17,472**	**13,238**	**1,937**	14,696	11,057	1,365
Purchased product	**396**	**—**	**—**	1,020	673	25
Total	**71,153**	**54,495**	**2,932**	65,239	34,514	2,316

Reserves & exploration: The December 31, 2002 total proven and probable mineral reserves in Sudbury remained essentially unchanged at 17.1 million tonnes despite production of 2.2 million tonnes of ore during 2002. The 2002 production was replaced with an increase in reserves of 1.2 million tonnes at Craig Mine due to a lower cut-off grade, the upgrading and discovery of 0.8 million tonnes at Thayer Lindsley Mine and an additional 0.3 million tonnes due to the reinterpretation of 6 Zone at Fraser Mine.

Exploration at Sudbury has resulted in the discovery of a new mineral resource, Nickel Rim South. Surface diamond drilling to date has defined an inferred resource consisting of 6.3 million tonnes of 1.7% nickel, 3.4% copper, 2.2 grams/tonne platinum, 2.5 grams/tonne palladium and 1.5 grams/tonne gold. A decision concerning an underground exploration program will be made in 2003. Underground drilling at Fraser Mine added 0.7 million tonnes grading 1.5% nickel and 0.4% copper in the Fraser Morgan zone. Total inferred mineral resources in Sudbury increased significantly to 22.1 million tonnes with Nickel Rim South and Fraser Mine being the main additions.

In combination with production and other reserve adjustments, the December 31, 2002 total proven and probable mineral reserves at Raglan decreased by 1.4 million tonnes, in 2002, to 18.1 million tonnes. Exploration in 2002 resulted

in the discovery of approximately 0.25 million tonnes of probable mineral reserves in two individual lenses at Zone 2 and Katinniq. When added to mining gains and losses, these discoveries replaced part of the annual production of 869,000 tonnes.

Falconbridge Dominicana, C. por A. (Falcondo)

Located in the Dominican Republic, Falcondo mines, mills, smelts and refines its own nickel laterite ores. Falconbridge owns 85.26% of Falcondo.

	2002	2001
Sales of ferronickel (tonnes)	**21,400**	24,600
Production (tonnes)	**23,300**	21,700
Revenues ($ millions)	**234**	237
Operating cash cost (U.S.$ per pound of nickel)*	**2.76**	2.63
Operating income (loss) ($ millions)	**1**	(18)

*Excludes shutdown costs.

Revenues: Revenues at Falcondo in 2002 were $233.6 million compared with $237.8 million in 2001 as the decrease in sales to 21,400 tonnes from 24,600 tonnes offset the impact of an 11% increase in the realized ferronickel price.

Costs: Falcondo's operating cash cost per pound of ferronickel increased by 5% in 2002, to U.S.$2.76 per pound due to the increase in oil prices and costs associated with maintenance at the power plant and the electric furnaces.

Operating income: The Corporation's share of Falcondo's 2002 operating income was $0.9 million, compared with an operating loss of $18.2 million in 2001. The $19.1 million higher contribution reflects a higher ferronickel selling price which offset the impact of decreased sales volumes, higher oil costs and shutdown costs.

Production: Falcondo's planned production rate in 2003 is expected to return to normal levels of approximately 27,000 tonnes of nickel in ferronickel compared with 23,300 tonnes in 2002 and 21,700 tonnes in 2001. Production during 2002 and 2001 was reduced largely as a result of planned shutdowns.

Productivity at Falcondo, measured by the nickel units produced per hour worked, was unchanged in 2002.

Reserves & exploration: The December 31, 2002 total proven and probable mineral reserves at Falcondo increased by 3.4 million tonnes to 64.1 million tonnes. During the year, only 3.0 million tonnes of ore were mined due to a production shutdown in the early part of the year.

COPPER OPERATIONS:

Falconbridge is also an important copper producer, ranking twelfth in the world in mined production during 2002. Our copper operations include Kidd Creek in Canada and Collahuasi and Lomas Bayas in Chile.

Operating income of the copper business was $82.3 million in 2002 compared with $66.0 million in 2001. Copper in concentrate production from the mines was 327,000 tonnes in 2002 compared with 290,000 tonnes in 2001. The operating cash cost per pound of copper was U.S.$0.42 per pound of copper compared with U.S.$0.43 per pound in 2001.

Kidd Creek Operations

Kidd Creek is engaged in the mining, milling, smelting and refining of its own copper/zinc ores and in the processing of custom feed.

	2002	2001
Sales (tonnes)		
Copper (in metal and concentrate)	**110,600**	105,100
Zinc (in metal and concentrate)	**148,400**	141,700
Revenues ($ millions)	**534**	505
Operating cash cost (U.S.$ per pound of copper)	**0.62**	0.74
Operating loss ($ millions)	**78**	64

Revenues: Revenues at the Kidd Creek Operations were $533.7 million in 2002, a 6% increase from 2001 due to higher sales volumes of copper and zinc, offset in part by lower copper and zinc prices. Relative to 2001, a higher proportion of the sales of zinc now comes from Kidd ores. As in 2001, custom feed sources account for a higher proportion of copper sales.

Costs: The operating cash cost at the Kidd Mine decreased in 2002, to U.S.$0.62 per pound of copper from U.S.$0.74 per pound of copper in 2001. The 2002 decrease is due largely to ground movement costs incurred in 2001 that were not incurred in 2002.

Operating income: Kidd Creek Operations reported an operating loss of $78.0 million in 2002 compared with an operating loss of $64.0 million for 2001. The $14.0 million increase in the operating loss largely reflects lower metal

KIDD CREEK OPERATIONS

	2002				2001			
	Ore tonnes (x 1,000)	Cu %	Zn %	Ag g/t	Ore tonnes (x 1,000)	Cu %	Zn %	Ag g/t
Production								
Kidd Mining Division								
No. 1 Mine	**902**	**1.80**	**7.78**	**92**	703	1.80	6.75	78
No. 2 Mine	**216**	**2.87**	**0.99**	**27**	281	4.05	0.25	22
No. 3 Mine	**1,112**	**2.11**	**5.89**	**78**	993	2.11	5.98	61
Total mined	**2,230**				1,977			
Total – ore processed	**2,245**	**2.12**	**5.89**	**78**	1,950	2.31	5.38	61

	Cu	Cu Cathode	Cu Blister	Zn	Ag	Cu	Cu Cathode	Cu Blister	Zn	Ag
Metal in concentrate from mines (tonnes except 000 troy ounces of Ag)	**45,434**	**—**	**—**	**104,083**	**3,671**	42,340	—	—	81,670	2,865
Kidd Metallurgical Division (tonnes except 000 troy ounces of Ag)										
Mines		**46,945**	**44,513**	**103,609**	**2,638**		41,758	46,034	67,399	2,909
Custom – Sudbury		**23,083**	**23,083**	**—**	**125**		8,430	8,430	—	23
Custom – Other		**76,498**	**76,498**	**41,700**	**1,084**		77,636	77,636	72,674	347
Total		**146,526**	**144,094**	**145,309**	**3,847**		127,824	132,100	140,073	3,279

	Cu	Cu in conc.	Zn	Zn in conc.	Ag	Cu	Cu in conc.	Zn	Zn in conc.	Ag
Sales (tonnes except 000s troy ounces Ag)										
Mines	**47,190**	**—**	**103,711**	**3,007**	**2,638**	38,758	—	68,997	—	2,909
Custom – other	**57,553**	**—**	**41,700**	**—**	**1,085**	66,385	—	72,674	—	347
Purchased metal	**5,832**	**—**	**—**	**—**	**—**	—	—	—	—	—
Total	**110,575**	**—**	**145,411**	**3,007**	**3,723**	105,143	—	141,671	—	3,256

prices at Kidd, and the impact of higher volumes of custom feed with lower profit margins.

Production: At the Kidd Mining Division, ore hoisted and milled in 2002 increased by 13% and 15%, respectively, from 2001 volumes. Copper metal in concentrate increased by 3,100 tonnes to 45,400 tonnes due to the higher tonnage which was offset by lower ore grades. Zinc in concentrate was also higher by 22,400 tonnes at 104,100 tonnes due to increased tonnage and improved grades. Recoveries for both zinc and copper were lower than in 2001. In 2003, copper in concentrate from the mine is expected to total 48,000 tonnes while zinc in concentrate is forecast at 95,000 tonnes.

At Kidd Metallurgical Division, numerous production records were established including: copper smelter on-line time, copper smelter feed throughput volumes, blister copper output, copper cathode production and zinc metal production. Copper blister and cathode production at 144,100 tonnes and 146,500 tonnes were 9% and 15% higher than in 2001. Zinc metal production at 145,300 tonnes was 5,200 tonnes higher than last year. Sulphuric acid production at 584,200 tonnes was 69,900 tonnes above the 2001 volume. Copper cathode production in 2003 is estimated at 132,000 tonnes while production of zinc is estimated at 145,000 tonnes.

During 2002, a new collective agreement was reached with the production and maintenance workers at the Kidd Metallurgical Division.

Reserves & exploration: After production of 2.2 million tonnes in 2002, the December 31, 2002 total proven and probable mineral reserves decreased by 1.3 million tonnes to 23.7 million tonnes. Approximately 0.9 million tonnes of proven mineral reserves were added in 2002 by the complete re-estimation of stope blocks in No. 3 Mine.

Collahuasi

Compañía Minera Doña Inés de Collahuasi S.C.M., in which Falconbridge holds a 44% interest, operates the Collahuasi mine in northern Chile. Collahuasi mines and mills copper sulphide ores into concentrate and mines and leaches copper oxide ores to produce cathodes.

Falconbridge share	**2002**	**2001**
Sales of copper (tonnes)	**187,500**	191,900
Production (tonnes)	**185,000**	193,100
Revenues ($ millions)	**386**	366
Operating cash cost (U.S.$ per pound of copper)	**0.39**	0.38
Operating income ($ millions)	**132**	122

Revenues: Falconbridge's share of revenues at Collahuasi in 2002 was $386.6 million compared with $365.7 million in 2001. The increase of $20.9 million is due to an increase in the realized copper price from U.S.$0.68 a pound to U.S.$0.71 a pound.

Costs: The operating cash cost of producing a pound of copper in 2002 was U.S.$0.39 per pound compared with U.S.$0.38 in 2001 due largely to the impact of lower ore grades and recoveries.

Operating income: The Corporation's share of Collahuasi's 2002 operating income was $132.1 million compared with $122.4 million in 2001.

Production: Falconbridge's share of annual copper production totalled 185,000 tonnes, which compared with 193,100 tonnes in 2001. Falconbridge's share of cathode from the oxide plant reached 26,700 tonnes (or 20% above design capacity), while production of copper in concentrate was 158,300 tonnes. Falconbridge's share of total copper production in 2003 is forecast at 168,000 tonnes.

During the year, the Board of Directors of Compañía Minera Doña Inés de Collahuasi approved the construction of a new grinding circuit at the Ujina concentrator. This is part of the Ujina to Rosario transition project, which also involves transferring mine production from the Ujina to the Rosario ore body in June of 2004. The project will increase Collahuasi's concentrator design capacity to 110,000 tonnes per day from 60,000 tonnes per day, compensating for an expected decline in ore grade and thereby enabling Collahuasi to maintain copper production at historical levels. The total capital cost of the transition and concentrator expansion project is estimated at U.S.$654 million, with Falconbridge's 44% share of this cost totalling U.S.$288 million.

Reserves & exploration: The December 31, 2002 total proven and probable mineral reserves at Collahuasi were 1,838.7 million tonnes, down by 28.9 million tonnes. Production of 30.7 million tonnes was slightly offset by mining gains in the various ore types of 1.8 million tonnes.

Lomas Bayas

In 2001, Falconbridge acquired Compañía Minera Falconbridge Lomas Bayas (Lomas Bayas). The results of operations have been included in the consolidated statements from that date forward. Lomas Bayas mines and leaches copper oxide ores to produce cathodes.

	2002	Since acquisition **2001**	Calendar **2001**
Sales of copper (tonnes)	**60,300**	27,400	N/A
Production (tonnes)	**59,300**	24,700	56,300
Revenues ($ millions)	**152**	61	N/A
Operating cash cost (U.S.$ per pound of copper)	**0.45**	0.45	N/A
Operating income ($ millions)	**28**	8	N/A

N/A – not applicable.

Revenues: Falconbridge's revenues for the year 2002 were $151.9 million compared with $61.0 million from the date of acquisition to December 31, 2001.

Costs: The operating cash cost of producing a pound of copper in 2002 remained constant at the 2001 cost of U.S.$0.45 per pound.

Operating income: Lomas Bayas' 2002 operating income was $28.0 million, compared with $7.6 million from the date of acquisition to December 31, 2001.

Production: Lomas Bayas produced 59,300 tonnes of copper cathode in 2002 compared with 56,300 tonnes in calendar year 2001. Copper production in 2003 is forecast at 58,000 tonnes.

Reserves & exploration: The December 31, 2002 total proven and probable mineral reserves at Lomas Bayas decreased by 48.2 million tonnes due to mine production of 26.7 million tonnes and the decrease in the long-term copper price from U.S.$0.95 to U.S.$0.90. Much of the material dropped from the reserves was added to the mineral resources, which increased by 19.4 million tonnes.

Corporate and other

Corporate and other includes corporate costs, exploration, research and development expenditures, foreign exchange gains and losses and other income and expenses.

Corporate and other costs in 2002 of $93.2 million were $13.1 million lower than in 2001. Increases in general and administrative expenditures were offset by reductions in exploration and research and development expenditures, as well as reduced losses from futures and forward metal positions and higher foreign exchange gains. Included in other income and expenses are losses on metals trading of $4.9 million in 2002 and $14.8 million in 2001. Since implementation of the program in 1999, trading has contributed $53.1 million to pre-tax profits.

LIQUIDITY AND CAPITAL RESOURCES

The cash position and changes in cash in each of the last two years ended December 31 are summarized below:

Year ended December 31 (Millions)	2002	2001
Cash provided by operating activities	**$ 341.4**	$ 354.5
Cash used in investing activities	**(373.4)**	(448.2)
Cash provided by financing activities	**93.6**	41.6
Cash provided (used) during the year	**61.6**	(52.1)
Cash and cash equivalents, beginning of year	**198.3**	250.4
Cash and cash equivalents, end of year	**$ 259.9**	$ 198.3

Liquidity and cash flow

Consolidated cash and cash equivalents increased by $61.6 million to $259.9 million at December 31, 2002, compared with $198.3 million at the end of last year. These items were invested primarily in high-quality short-term money market instruments.

The Corporation has a commercial paper program. Unused lines of credit and cash on hand are used to support the commercial paper program. Borrowings against the lines of credit may be in the form of letters of credit which offset amounts available under the Credit Facility. The Corporation's Credit Facilities at December 31, 2002 totalled U.S.$415 million. As at December 31, 2002, the Corporation had borrowed U.S.$63.5 million and had drawn letters of credit totalling U.S.$36.5 million under a Credit Facility. As at December 31, 2002, the Corporation had commercial paper outstanding of U.S.$27.6 million and Cdn$10.0 million.

Working capital increased by $144.2 million to $626.6 million at the end of 2002 from $482.4 million primarily due to the impact of higher metal prices.

Cash generated from operations totalled $341.4 million compared with $354.5 million for 2001.

The ratio of current assets to current liabilities improved to 2.5:1 from 2.1:1 in 2001.

Based on planned production levels, estimated LME prices and forecasted Canadian/U.S. dollar exchange rates, it is anticipated that funds provided from operations, available cash, and proceeds from existing lines of credit will be sufficient to finance planned capital expenditures in 2003 and the dividends declared to date.

Outstanding indebtedness

Total debt increased to $2,022.5 million at December 31, 2002 from $1,867.3 million at the end of 2001. The increase was attributable to the issue of $383.4 million of new debt offset by debt repayments of $219.9 million and foreign exchange gains of $8.3 million, on U.S. dollar-denominated debt, from the strengthening of the Canadian dollar at December 31, 2002 relative to December 31, 2001. The current portion of long-term debt is $99.7 million.

The ratio of net debt (debt minus cash and temporary investments) to net debt plus equity rose to 44% at the end of 2002 from 42% in 2001.

Capital expenditures and deferred project costs

The following table summarizes the expenditures incurred or planned for the periods indicated:

		Year ended December 31	
(Millions)	Planned in 2003	**2002**	2001
Sudbury	$ 60	**$ 26**	$ 37
Nikkelverk	16	**8**	14
Raglan	35	**37**	47
Falcondo	18	**22**	23
Kidd Creek	113	**124**	150
Collahuasi	268	**84**	29
New Caledonia	32	**32**	33
Montcalm	62	**5**	12
Lomas Bayas	18	**17**	2
Other	5	**3**	1
Total	$ 627	**$ 358**	$ 348

Expenditures in 2002 were directed towards development of Mine D at the Kidd Mining Division, the Collahuasi transition from Ujina to Rosario, the debottlenecking of the SX/EW plant at Lomas Bayas, evaluation work at New Caledonia and to maintain and improve productive capacity at all locations.

Expenditures in 2003 will primarily be used to proceed with the continued development of Mine D at the Kidd Mining Division, the Collahuasi transition from Ujina to Rosario, the development of the Nickel Rim South deposit, continued evaluation work at New Caledonia and to maintain and improve productive capacity at all locations. Expenditures will be financed from internal sources and existing lines of credit. Capital expenditures over the next few years will be focused on providing sustaining capital for existing operations and planned developments at Mine D, the Collahuasi transition and expansions, the development of Montcalm, Nickel Rim South and New Caledonia.

Energy

In 2002, Falconbridge continued developing and implementing business processes focused on managing energy procurement from global markets and providing load response to price fluctuations. Notably, Central Energy Services located in Falconbridge, Ontario coordinates the procurement, risk management and delivery of electricity and natural gas from competitive provincial and national energy markets for four non-contiguous provincial sites. The operations in Norway, Chile and the Dominican Republic address their supply of energy with similar attention to price, risk and security of supply.

Overall, energy expenditures continue to represent a significant percentage of operating costs. During 2002, Falconbridge reduced its overall energy costs by about $5.0 million as part of its three-year 10% cost reduction plan. Nikkelverk, through ongoing efforts to improve energy intensity, achieved its lowest energy consumption per unit of production ever.

SUSTAINABLE DEVELOPMENT

The estimated liability for future site restoration costs remained constant at $225 million at December 31, 2002 relative to the prior year-end. This estimate is based on information currently available, including preliminary closure plans and alternatives, applicable regulations, planned spending on site restoration and the remaining life of Falconbridge's ore reserves. At December 31, 2002, Falconbridge had provided $93.3 million compared with $85.2 million last year, in addition to ongoing capital and operating expenditures. The remaining balance will be accrued and expensed during the remaining lives of the operations.

Our "Report on Sustainable Development" is scheduled for release in April 2003.

EXPLORATION AND BUSINESS DEVELOPMENT

Exploration

Falconbridge's exploration program is largely focused on nickel and platinum group metals. The mandate is to discover mineral deposits, delineate inferred/indicated mineral resources and advance them through pre-feasibility and feasibility stages. In order for a project to advance, the mineral resource is generally expected to be of strategic size, provide an after-tax return on equity of 15%, have operating costs below the industry mid-point, and be in a location with acceptable country risk. The use of joint ventures to share cost, spread risk and to increase the level of focused activity is preferred.

Exploration at Sudbury, Ontario has resulted in the discovery of a new mineral resource, Nickel Rim South. Surface diamond drilling to date has defined an inferred resource consisting of 6.3 million tonnes of 1.7% nickel, 3.4% copper, 2.2 grams/tonne

ADVANCED PROJECTS – Mineral Resources[1]

(December 31, 2002) Project	Resource location	Percentage ownership	Category	Million tonnes	% Nickel	% Copper	% Cobalt	% Zinc
Nickel deposits								
Nickel Rim South[2]	Sudbury	100%	Inferred	6.3	1.7	3.4	0.03	—
Onaping Depth[2]	Sudbury	100%	Indicated	14.6	2.52	1.15	0.06	—
			Inferred	1.2	3.6	1.2	0.07	—
Montcalm	Ontario	100%	Indicated	7.0	1.36	0.67	0.06	—
			Inferred	0.7	1.7	0.70	0.07	—
Côte d'Ivoire	Ivory Coast	85%	Indicated	123.9	1.57	—	0.10	—
			Inferred	134	1.4	—	0.12	—
Koniambo[3]	New Caledonia	49%	Measured	2.2	2.20	—	0.05	—
			Indicated	118.8	2.15	—	0.06	—
			Total	121.0	2.15	—	0.06	—
			Inferred	190.0	2.1	—	0.08	—
Copper deposits								
Mine D[4]	Timmins	100%	Inferred	14.1	—	3.4	—	4.9
Fortuna de Cobre[5]	Chile	100%	Measured	61.0	—	0.35	—	—
			Indicated	206.0	—	0.31	—	—
			Total	267.0	—	0.32	—	—
			Inferred	127.0	—	0.26	—	—

Notes: 1. The mineral resource estimates were prepared in accordance with the "CIM Standards on Mineral Resources and Mineral Reserves, Definitions and Guidelines", adopted by CIM Council on August 20, 2000, using classical and/or geostatistical methods, plus economic and mining parameters appropriate to each project.
The mineral resources have been compiled under the supervision of Chester Moore, Director, Mineral Reserve Estimation and Reporting, a member of the Professional Geoscientists of Ontario with 30 years experience as a geologist.
The mineral resources have reasonable prospects for economic extraction but have not yet had complete formal evaluation, or do not have demonstrated economic viability under current conditions.
2. Also included as part of the Sudbury mineral resources on the Mineral Reserves and Mineral Resources table.
3. Option to earn. Cut-off grade used to estimate the 2002 mineral resources was decreased to 1.5% nickel from 2.0% nickel in 2001.
4. Also included as part of the Kidd Creek mineral resources on the Mineral Reserves and Mineral Resources table.
5. Option to purchase.

platinum, 2.5 grams/tonne palladium and 1.5 grams/tonne gold. This project has entered the stage-gate process and a decision on whether or not to proceed with an underground exploration program will be made in 2003.

In addition to the exploration programs at Falconbridge's current operations, exploration projects are in progress in Canada, Africa, Australia and Brazil.

The table below summarizes exploration expenditures incurred or planned for the periods indicated:

Year Ended December 31 (Millions of Canadian dollars)	Planned in 2003	2002	2001
Support of core operations in Canada	$ 19	**$ 19**	$ 22
New exploration projects in Canada	4	**5**	5
Collahuasi	0	**0**	1
Other exploration projects outside Canada	6	**10**	12
	$ 29	**$ 34**	$ 40

Business development

A number of potential acquisition opportunities were evaluated during the course of the year. While most were rejected for failing to meet the company's investment criteria, the evaluation of a number of nickel acquisition opportunities was ongoing at year-end.

Work continued throughout the year on the Koniambo ferronickel project in New Caledonia. In 1998, Falconbridge entered into a joint venture agreement with Société Minière du Sud Pacifique S.A. and its controlling shareholder, Société de Financement et d'Investissement de la Province Nord, for the evaluation and development of a 60,000 tonne per year nickel in ferronickel mining and smelting complex. The project is based on the Koniambo deposit located in the Northern Province of New Caledonia near the provincial capital of Kone. Falconbridge has a right to earn a 49% interest in the project.

KEY ASSUMPTIONS FOR MINERAL RESOURCE AND RESERVE ESTIMATION

Refer to Summary of Mineral Reserves and Mineral Resources on page 16

Bulk density: the factor used to convert volume into tonnage. This factor is a function of the mineralogy and physical characteristics of a deposit. Formulae are developed using regression analyses on a suitably large number of individual determinations.

Cut-off grade: the grade that ensures the revenue from the metal content of the lowest grade parcel included in a deposit will be at least equal to the anticipated prime operating costs of producing this revenue. These costs include mining, milling, smelting, refining, selling and all transportation and administration costs. The cut-off grade will vary greatly from property to property due to a range of factors including deposit size and shape, metal content and prime cost structure.

Exchange rate (U.S.$ to Cdn$): 1.50

Long-term metal prices (U.S.$ per pound): Nickel $3.25, Copper $0.90, Zinc $0.50

Minimum mining width: the smallest horizontal thickness used in an estimation based on the selected mining method and the minimum opening size required by mining equipment used. The grade across this minimum width must equal or exceed the cut-off grade.

Mining dilution*: all external material with grades lower than the cut-off grade that must be removed with the ore. The amount of this diluting material can vary considerably and depends upon mining method and the location, attitude, size, shape and wall rocks of the ore zone.

Mining recovery*: the proportion of the ore that is extracted after accounting for mining losses. The mining recovery can vary widely both within a single mine and from property to property due to a range of factors including deposit geometry and mining method.

*Used for mineral reserve estimation only.

A work program leading to the production of a bankable feasibility study began in the fourth quarter of 1998. The pre-feasibility study was completed in the second half of 2002 and is currently under review. Further geological drilling has been undertaken in order to delineate a minimum of 10 years of measured resources and 15 years of indicated resources at a 2.0% nickel cut-off grade. This drilling will be completed by March 2003. The environmental impact assessment is also expected to be issued by the end of the first quarter of 2003.

U.S.$20.3 million was spent on the program in 2002, bringing the total expenditure to date to U.S.$87.5 million. It is expected that the bankable feasibility study will begin in the second half of 2003 and be completed by mid-2004. Total project cost through to the completion of the bankable feasibility study is expected to be U.S.$123 million.

A feasibility study for the Montcalm nickel-copper property located near Timmins, Ontario is now tentatively scheduled for completion during the second quarter of 2003. The study is based on a mineral resource of 7.7 million tonnes grading 1.39% nickel and 0.67% copper. Montcalm has the potential to produce 5 million tonnes at a rate of 750,000 tonnes annually. The ore would be milled and concentrated at the Kidd Metallurgical Division, and could contribute up to 8,000 tonnes annually to nickel output from the Sudbury smelter.

MARKETS

The world economic expansion continued in 2002, albeit at a much slower pace than originally anticipated. The base metals market surprised the bears with stronger-than-expected prices from October 2001 into the first quarter of 2002. But the rally quickly fizzled as inventories climbed and the U.S. and European economies experienced a false start. The improvement in metal prices during the fourth quarter of 2002 was based on a perception that end-use demand would improve into 2003.

On the basis of improved fundamentals, the nickel price rose 25% from the end of 2001 to reach U.S.$3.22/lb at the end of 2002. It was the only metal to have traded near its average long-term price towards the end of 2002. Refined nickel supply increased by 3.5% mainly as the result of a return to normal output for some producers and continued brownfield ramp-ups. Demand grew a healthy 5.4% on the back of average growth in stainless steel production partly due to restocking and a tight scrap supply. The positive effects of these two factors more than offset the negative growth of 1.5% in the non-stainless steel sector. In particular, the high nickel alloy and battery markets were very weak due to not only poor

demand but also a destocking of inventory was necessary to realign sales with production. Consequently, the nickel market was finely balanced for the year. In addition, the nickel market received a boost by Norilsk choosing to collateralize 60,000 tonnes of nickel it held in inventory for a period of three years in exchange for a loan agreement, which was viewed as very price supportive by the market. LME stocks ended the year at 21,990 tonnes, which is seen as quite low by historical standards.

The Western World refined copper market was close to balance in 2002, as the mine production cuts announced late in 2001 flowed through directly to lower metal production the following year. The decrease in mine production resulted in the concentrate market becoming extremely tight towards the end of 2002. Refined metal production fell in 2002 corresponding to the lower availability of concentrates and a shortage of scrap, with the result that last year's large surplus shrank down significantly. The large influx of copper metal from the Eastern bloc seen in previous years disappeared in 2002 due to a combination of record imports of refined copper into China, and lower exports of copper metal out of Russia. Imports into China were augmented by a reported build-up in official stockpiles.

The copper market moved closer to a balanced market due to mine production cuts, rather than a recovery in demand. Copper demand remained weak in 2002. European and American demand recovery failed to occur and, in Japan, the deteriorating economic outlook has translated into continued poor demand for copper. The bright spot was Asia, which has experienced tremendous growth in demand for copper, partly due to improved economic activity and hence domestic demand, and partly due to a surge in exports, particularly to China. LME inventories increased by 57,725 from the end of last year, ending 2002 at 856,400 tonnes. On the basis of improved supply fundamentals, the LME cash settlement price for copper was U.S.$0.70 per pound at the end of December, an increase from last year.

The following table indicates the average metal price and the Canadian/U.S. dollar exchange rate realized by Falconbridge and on the London Metal Exchange in 2002 and 2001:

Average U.S. prices and Canadian/U.S. dollar exchange rates

		Realized by Falconbridge		London Metal Exchange	
	Pricing unit	**2002**	2001	**2002**	2001
Nickel	pound	**$ 3.14**	$ 2.79	**$ 3.07**	$ 2.70
Ferronickel	pound	**3.16**	2.85	**—**	—
Copper	pound	**0.72**	0.70	**0.71**	0.72
Zinc	pound	**0.39**	0.44	**0.35**	0.40
Cobalt	pound	**7.02**	9.66	**6.76***	9.29*
Average exchange rate realized U.S.$1 = Cdn$					
pre-hedge		**1.57**	1.55		
post-hedge		**1.56**	1.52		

*As per *Metal Bulletin* 99.3%.

RISK FACTORS

As a significant portion of Falconbridge's revenues are derived from the sale of nickel, copper, cobalt and zinc, Falconbridge's earnings are directly related to fluctuations in the prices of these metals. Market prices can be affected by numerous factors beyond Falconbridge's control, including expectations for inflation, speculative activities, relative exchange rates to the U.S. dollar, global and regional demand and production, political and economic conditions and production costs in major producing regions.

In order to minimize metal price risk exposure on purchased metals, fluctuations in inventory levels, and to obtain the average LME prices, the Corporation periodically uses futures and options contracts to hedge these risks. Generally, Falconbridge does not hedge the price it realizes on the sale of its own production and accepts market prices prevailing at the time of sale. From time to time, however, the Corporation may fix the price associated with its own future production to lock in certain profits or cash flows. The Corporation may buy call options to maintain the upside potential for price movements. The Board of Directors of the Corporation has approved a policy to address the philosophy, implementation, control and limits on metal trading.

Another facet of commodity price risk involves the potential for prices to decline to sufficiently low levels, and for markets to become sufficiently uncertain, that the company decides it

must reduce the carrying values of affected assets. These reductions can result from decisions to cease production at existing operations, to cancel or postpone the development of new mining projects, to reduce reserves based on lower price assumptions, or the belief that future cash flows from operating assets will be inadequate to support existing carrying values.

Fluctuations in currency exchange rates, principally the Canadian/U.S. dollar exchange rate, can significantly impact Falconbridge's earnings and cash flows. Most of Falconbridge's revenues and debt are denominated in U.S. dollars, whereas most of the operating costs at the Canadian sites are incurred in Canadian dollars. The costs at Falcondo, Lomas Bayas and Collahuasi are incurred mainly in U.S. dollars while Nikkelverk's costs are incurred in Norwegian kroner. From time to time, the Corporation will engage in financial risk management programs, approved by the Board of Directors, by entering into contractual arrangements which reduce exposures by creating an offsetting position. Further details are provided in note 14, page 46, of this annual report.

The business of mining and processing of metals is generally subject to a number of risks and hazards, including industrial accidents, labour disputes, unusual or unexpected geological conditions, ground conditions and phenomena such as inclement weather conditions, floods, earthquakes and the handling of hazardous substances and emissions of contaminants. Such occurrences could result in personal injury or death, damage to, or destruction of, mineral properties, processing or production facilities, or the environment, monetary losses and possible legal liability. Although Falconbridge maintains insurance against risks that are typical in the mining industry, such insurance may not provide adequate coverage under all circumstances.

In view of the uncertainties concerning future removal and site restoration costs on Falconbridge properties, the ultimate costs to Falconbridge could differ from the amounts estimated. The estimate for this future liability is subject to change based on amendments to applicable laws and legislation, the nature of ongoing operations and technological innovations. Future changes, if any, due to their nature and unpredictability, could have a significant impact and would be reflected prospectively as a change in an accounting estimate.

SENSITIVITIES

Falconbridge's earnings and cash flows are sensitive to changes in metal prices and the Canadian/U.S. dollar exchange rate. The following table shows the approximate impact on operating income, earnings and cash flow due to variations in these factors, based on Falconbridge's normal annual sales volumes, if the change was to remain in effect for the full year:

		Impact on		
($ Millions)	Change in U.S.$ Realized Price	Operating Income	Earnings (a)	Cash Flow
Nickel	$0.10 per pound	20	14	19
Ferronickel	0.10 per pound	8	4	4
Copper	0.10 per pound	108	71	102
Zinc	0.05 per pound	21	13	19
Cobalt	1.00 per pound	7	6	7
Platinum and Palladium	100.00 per ounce	19	13	18
Silver	1.00 per ounce	5	3	5
Exchange rate (on revenue) U.S.$1.00 = Cdn$ +/– 1¢		4	3	4

(a) Difference between earnings and cash flow relates to deferred tax amount.

Falconbridge periodically uses foreign exchange and options contracts to hedge the effect of exchange rate changes on identifiable foreign currency exposures and futures and option contracts to hedge the effect of price changes on a portion of the metals it sells from its mine production. The above sensitivities could accordingly be affected if such hedging programs were to be put in place.

ACCOUNTING CHANGES

Effective January 1, 2002, the Corporation adopted retroactively, without restatement of the prior-period comparative financial statements, the new CICA accounting standards for Stock-Based Compensation and Other Stock-Based Payments. Under this standard, the Corporation now accounts for stock options using the fair value method. Under this method, compensation expense for stock options granted since January 1, 2002, that are direct awards of stock, is measured at the fair value at the grant date using the Black-Scholes valuation model and is recognized over the vesting period of the options granted. The effect of adopting the standard for Stock-Based Compensation and Other Stock-Based Payments was to decrease retained earnings by $0.2 million for those awards granted and outstanding before January 1, 2002. Selling, general and administrative expenses

to December 31, 2002, include compensation costs of $4.0 million relating to outstanding options granted since January 1, 2002.

OUTLOOK

The global economy is expected to gain momentum in 2003, though downside risks to the global outlook are still high, particularly on the geopolitical stage. Macroeconomic fiscal and monetary policies are in place to spur demand growth, leading to further price improvement. Continued recovery in end-use demand is key for the sustainability of base metals prices.

For 2003, the nickel market is forecast to move into a deficit as nickel demand overtakes supply. Western World stainless steel production growth will be slightly lower at 4.6%, as production rates moderate, particularly in the U.S., but new expansions slated to come on-line in 2003 will require more nickel units to fill pipeline inventories. The non-stainless steel sectors will experience a modest recovery, as many industries are believed to have bottomed in 2002. If economic conditions improve more than anticipated, nickel prices can be expected to respond favourably.

For 2003, Western World copper mine production is forecast to increase sharply by about 4.5%. As a result, the concentrate market will rebalance into a slight surplus. The bulk of the increase will come from the Phase IV expansion at Escondida. For 2003, refined copper production is expected to rise modestly, as the balance of the mine production increase will go into alleviating the concentrates deficit. While strong Chinese buying is expected to continue next year, it is not expected to reach the record level of 2002, and net trade of copper metal from the East into the West will return. Following two years of negative growth in copper demand, the copper market is well positioned to take advantage of an eventual recovery in demand. A 3.9% growth rate is forecast for 2003, which will be sufficient to move the market into a deficit position.

Global demand for cobalt grew 7% in 2002 despite the lack of demand from the major end-use super alloys market. The aerospace industry is in the midst of a cyclical downturn and is not expected to see any pick-up until 2004. Overestimation of demand for land-based turbines by manufacturers as well as the financial crisis in the energy sector created by the Enron bankruptcy has resulted in significant reductions of production schedules. It is the other cobalt-consuming end-uses that performed well and contributed to growth – the tool steels sector, the electronics sector and cobalt chemicals. Demand is expected to moderate slightly next year, but will still come in at a respectable 5% growth.

The growth in demand combined with cuts in production moved the cobalt market to a deficit in 2002. In 2003, further cutbacks by existing producers are expected, but these will be more than offset by greater output from OMG's Big Hill and higher capacity as a result of modernization at the Anglovaal's Chambishi plant in Zambia. In addition, Defense Logistics Agency stockpile sales are expected to double in 2003. These releases, together with new production, will swing the market back into a surplus position for 2003.

ACCOUNTING RESPONSIBILITIES, PROCEDURES AND POLICIES

The Board of Directors which, among other things, is responsible for the consolidated financial statements of the Corporation, delegates to management the responsibility for the preparation of the statements. Responsibility for their review is that of the Audit Committee. Each year the shareholders appoint independent auditors to audit and report directly to them on the financial statements.

In preparing the consolidated financial statements, great care is taken to use the appropriate generally accepted accounting principles and estimates considered necessary by management to present fairly and consistently the consolidated financial position and the results of operations. The principal accounting policies followed by Falconbridge are summarized on pages 37 and 38.

The accounting systems employed by Falconbridge include appropriate controls, checks and balances to provide reasonable assurance that Falconbridge's assets are safeguarded from loss or unauthorized use as well as facilitating the preparation of comprehensive, timely and accurate financial information. There are limits inherent in all systems based on the recognition that the cost of such systems should not exceed the benefits to be derived. Falconbridge believes its systems provide the appropriate balance in this respect.

The Corporation's Audit Committee is appointed by the Board of Directors annually and is currently comprised of five non-management directors. The Committee meets with management and with the independent auditors (who have free access to the Audit Committee) to satisfy itself that each group is properly discharging its responsibilities and to review the financial statements and the independent auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration in approving the financial statements for issuance to the shareholders.

David Race
Chairman of the Audit Committee

Aaron Regent
President and
Chief Executive Officer

Michael Doolan
Senior Vice President and
Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Falconbridge Limited:

We have audited the consolidated statements of financial position of Falconbridge Limited as at December 31, 2002 and 2001 and the consolidated statements of earnings, shareholders' equity and of cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Toronto, Canada
January 31, 2003

CONSOLIDATED STATEMENTS OF EARNINGS

In thousands of Canadian dollars, Year ended December 31	2002	2001
REVENUES	**$ 2,394,035**	$ 2,138,249
OPERATING EXPENSES		
Costs of metal and other product sales	**1,732,828**	1,593,350
Selling, general and administrative	**136,388**	121,266
Amortization of development and preproduction expenditures	**88,337**	89,061
Depreciation and depletion	**260,367**	241,792
Exploration	**33,693**	39,530
Research and process development	**12,941**	16,919
Foreign exchange (gains) losses	**(13,319)**	979
Other expenses	**6,119**	9,294
	2,257,354	2,112,191
OPERATING INCOME	**136,681**	26,058
Interest (note 11)	**88,198**	86,673
Earnings (loss) before taxes and non-controlling interest	**48,483**	(60,615)
Income and mining taxes (note 7)	**(24,819)**	(75,402)
Non-controlling interest in loss of subsidiaries	**(52)**	(1,180)
EARNINGS FOR THE YEAR	**$ 73,354**	$ 15,967
Dividends on preferred shares	**12,509**	12,038
Earnings attributable to common shares	**$ 60,845**	$ 3,929
BASIC AND FULLY DILUTED EARNINGS PER COMMON SHARE (NOTE 10(c))	**$ 0.34**	$ 0.02

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

In thousands of Canadian dollars, December 31	2002	2001
ASSETS		
CURRENT		
Cash and cash equivalents	**$ 259,933**	$ 198,315
Accounts and metals settlements receivable (note 15)	**342,414**	259,950
Inventories (note 3)	**447,889**	460,891
TOTAL CURRENT ASSETS	**1,050,236**	919,156
Property, plant and equipment (note 4)	**3,954,570**	3,987,676
Deferred expenses and other assets (note 5)	**198,784**	162,628
TOTAL ASSETS	**$ 5,203,590**	$ 5,069,460
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Accounts payable and accrued charges	**$ 304,781**	$ 312,663
Income and other taxes payable	**19,164**	10,964
Long-term debt due within one year (note 6)	**99,731**	113,133
TOTAL CURRENT LIABILITIES	**423,676**	436,760
Long-term debt (note 6)	**1,922,803**	1,754,188
Future income and mining taxes (note 7)	**186,997**	216,922
Employee future benefits (note 8)	**239,569**	248,271
Other long-term liabilities (note 9)	**115,258**	103,265
Non-controlling interest	**29,986**	30,046
TOTAL LIABILITIES	**2,918,289**	2,789,452
Commitments and contingencies (notes 6, 9, 14, 17)		
SHAREHOLDERS' EQUITY	**2,285,301**	2,280,008
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 5,203,590**	$ 5,069,460

See accompanying Notes to Consolidated Financial Statements.

On behalf of the Board:

Alex G. Balogh
Director

Aaron Regent
Director

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

In thousands of Canadian dollars, Year ended December 31	2002 Number	2002 Amount	2001 Number	2001 Amount
SHARE CAPITAL				
AUTHORIZED				
Unlimited preferred shares				
Unlimited common shares				
ISSUED				
Common shares				
Balance, beginning of year	**176,977,146**	**$ 2,176,622**	176,976,628	$ 2,176,612
Issued (note 10(d))	**583,386**	**12,105**	—	—
Issued pursuant to employee stock option plan (note 10(a))	**42,900**	**738**	518	10
Balance, end of year	**177,603,432**	**2,189,465**	176,977,146	2,176,622
Preferred shares Series 1 (note 10(b)) Balance, beginning and end of year	**89,835**	**899**	89,835	899
Preferred shares Series 2 (note 10(b)) Balance, beginning and end of year	**7,910,165**	**197,753**	7,910,165	197,753
CONTRIBUTED SURPLUS				
Balance, beginning of year		**—**		—
Amortization of fair value of stock options granted		**3,059**		—
Balance, end of year		**3,059**		—
DEFICIT				
Balance, beginning of year		**(101,932)**		(34,966)
Adjustment for change in accounting policy Stock based compensation (note 2)		**(245)**		—
Earnings for the year		**73,354**		15,967
Dividends – Common shares		**(70,799)**		(70,790)
– Preferred shares		**(12,509)**		(12,038)
Share issue costs, net of taxes		**(410)**		—
Stock option plan cash payments, net of taxes (notes 2, 10(a))		**—**		(105)
Balance, end of year		**(112,541)**		(101,932)
CUMULATIVE TRANSLATION ADJUSTMENT				
Balance, beginning and end of year		**6,666**		6,666
TOTAL SHAREHOLDERS' EQUITY		**$ 2,285,301**		$ 2,280,008

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands of Canadian dollars, Year ended December 31	2002	2001
OPERATING ACTIVITIES		
Earnings for the year	**$ 73,354**	$ 15,967
Add (deduct) items not affecting cash		
Depreciation and depletion	**260,367**	241,792
Amortization of development and preproduction expenditures	**88,337**	89,061
Future income and mining taxes (note 7)	**(39,977)**	(75,229)
Non-controlling interest in loss of subsidiaries	**(52)**	(1,180)
Other	**38,204**	(2,641)
Contributions to pension fund in excess of amounts expensed	**(8,701)**	(9,452)
CASH PROVIDED BY OPERATING ACTIVITIES BEFORE WORKING CAPITAL CHANGES	**411,532**	258,318
Net change in receivables, inventories and payables	**(70,105)**	96,129
CASH PROVIDED BY OPERATING ACTIVITIES	**341,427**	354,447
INVESTING ACTIVITIES		
Capital expenditures and deferred project costs	**(357,740)**	(348,328)
Acquisition of Lomas Bayas (note 16)	**—**	(100,729)
Cash acquired on acquisition of Lomas Bayas (note 16)	**—**	16,867
Other	**(15,623)**	(16,013)
CASH USED IN INVESTING ACTIVITIES	**(373,363)**	(448,203)
FINANCING ACTIVITIES		
Long-term debt, including current portion (note 6):		
Issued	**383,400**	486,320
Repaid	**(219,940)**	(339,366)
Short-term debt	**—**	(22,503)
Dividends paid	**(82,339)**	(82,828)
Issue of common shares (note 10(a), (d))	**12,433**	10
CASH PROVIDED BY FINANCING ACTIVITIES	**93,554**	41,633
CASH PROVIDED (USED) DURING THE YEAR	**61,618**	(52,123)
Cash and cash equivalents, beginning of year	**198,315**	250,438
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 259,933**	$ 198,315
CASH FLOW PER COMMON SHARE FROM OPERATING ACTIVITIES (NOTE 10(c))	**$ 1.86**	$ 1.93
Supplementary information:		
Cash paid for interest	**$ 92,187**	$ 92,328
Cash paid for income and mining taxes	**$ 834**	$ 22,870

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular figures in thousands of Canadian dollars, except where otherwise noted)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Falconbridge Limited have been prepared in accordance with Canadian generally accepted accounting principles, consistently applied. In these consolidated financial statements, references to the Corporation mean only Falconbridge Limited, the parent company, and references to Falconbridge include the Corporation and its consolidated subsidiaries. The principal accounting policies followed by Falconbridge are summarized hereunder.

Basis of consolidation Falconbridge consolidates the financial statements of subsidiary companies and proportionately consolidates the financial statements of joint ventures.

Translation of foreign currencies Foreign currency balances, and the financial statements of integrated foreign operations, are translated into Canadian dollars using the temporal method. Under this method, monetary items are translated at the rate of exchange in effect at the year-end. Non-monetary items are translated at historical exchange rates. Revenue and expense items are translated at the weighted average exchange rates prevailing during the year, except for depreciation, depletion and amortization, which are translated at the same exchange rates as the assets to which they relate. Exchange gains and losses are included in income in the current year, except when hedged. Certain monetary items are hedged by foreign currency forward and option contracts.

Financial statements of self-sustaining foreign operations are translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated at the rate of exchange in effect at the year-end while revenue and expense items (including depreciation, depletion and amortization) are translated at the weighted average exchange rates prevailing during the year. Exchange gains and losses from the translation of such financial statements are deferred and disclosed as a separate component of shareholders' equity. Falconbridge uses a combination of its U.S. dollar long-term debt and forward exchange contracts and options for the sale of U.S. dollars to fully hedge its net investments in self-sustaining foreign operations. Gains or losses on these hedge instruments are reported in the same manner as exchange gains and losses from the translation of the financial statements of its self-sustaining foreign operations.

Revenue recognition Revenues are generated from the sale of refined metals, concentrates and ferronickel and are recorded in the accounts when the ownership and control of goods passes to the buyer, which generally occurs upon shipment. Prices used for provisionally priced sales are based on market prices prevailing at the time of shipment and are adjusted upon final settlement with customers pursuant to the terms of sales contracts.

Cash and cash equivalents Cash and cash equivalents include cash on account, demand deposits and short-term investments with original maturities of three months or less and are stated at cost, which approximates market value.

Valuation of inventories Metals inventories are valued at the lower of cost, determined on a "first-in, first-out" basis, and net realizable value. Supplies inventories are valued at the lower of average cost of acquisition, less appropriate allowances for obsolescence, and replacement cost.

Financial instruments Falconbridge periodically uses forward foreign exchange and option contracts to hedge the effect of exchange rate changes on identifiable foreign currency exposures. Generally, Falconbridge does not hedge the price it realizes on the sale of its own production and accepts realizations based on market prices prevailing around the time of delivery of metals to customers. Under certain circumstances, Falconbridge enters into futures and option contracts to hedge the effect of price changes on a portion of the commodities it sells. Gains and losses on these contracts are reported as a component of the related transactions. Falconbridge may enter into futures and forward contracts for the purchase or sale of commodities and currencies not designated as hedges. These contracts are carried at estimated fair values and gains or losses arising from the changes in the market values of these contracts are recognized in the earnings of the period in which the changes occur.

Falconbridge also enters into interest-rate swap agreements, including foreign exchange cross currency swaps, to modify the interest characteristics of its outstanding debt. The differential to be paid or received is accrued as interest rates change and recognized as an adjustment to interest expense related to the debt.

Interest Falconbridge capitalizes interest costs incurred, prior to the commencement of commercial production, for projects that are specifically financed by debt. Interest costs incurred after the commencement of commercial production are expensed.

Property, plant and equipment Property, plant and equipment and related capitalized development and preproduction expenditures are recorded at cost. Repairs and maintenance expenditures are charged to operations; major betterments and replacements are capitalized.

The Corporation generally depreciates plant and equipment on a straight-line basis over the lesser of their useful service lives or the lives of the producing mines to which they relate. At the Kidd Creek Operations, mine facilities are depreciated over the estimated lives of the mines based on the unit of production basis. Up to and including the period ended September 30, 2002, reduction and refining facilities were depreciated on the straight-line basis over 25 years, ending in 2010. Effective October 1, 2002, the straight-line depreciation period of the reduction and refining facilities was extended to 2022 to coincide with the revised estimated useful life of these facilities. Generally the subsidiary companies calculate depreciation on a straight-line basis at rates varying from 5% to 25%.

Depletion of resource properties is provided over the estimated lives of the resources recoverable from the properties on the unit of production basis.

Development and preproduction expenditures are capitalized until the commencement of commercial production. These, together with certain subsequent development expenditures, which are also capitalized, are amortized over periods not exceeding the lives of the producing mines and properties.

Exploration Exploration costs incurred to the date of establishing that a property has reserves, which have the potential of being economically recoverable, are charged against earnings. Further costs are generally deferred and, upon reaching commercial production, amortized as appropriate under the policy for property, plant and equipment as described above.

Employee future benefits The costs of retirement benefits and certain post-employment benefits are recognized over the period in which employees render services in return for the benefits.

Pension expense recorded for Falconbridge's defined benefit plans is the net of management's best estimate of the cost of benefits provided, the interest cost of projected benefits, return on pension plan assets and amortization of experience gains or losses and other pension plan surpluses or deficits. Pension fund assets are valued at current market values. Pension plan surpluses or deficits, experience gains or losses and the cost of pension plan improvements are amortized, on a straight-line basis, over the expected average remaining service life of the employee group or the term of the employment contract to which the items relate, depending on the nature of the item. Funding is subject to applicable government regulations.

Under its defined contribution retirement savings program, Falconbridge makes payments based on employee earnings and partially matches employee contributions, to a defined maximum. Employees may receive profit sharing credits based on earnings.

Falconbridge also provides certain health care and life insurance benefits for retired employees and their dependents. The cost of these benefits is expensed over the period in which the employees render services in return for the benefits.

Income and mining taxes Current income taxes are recognized for the estimated income and mining taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses, available to be carried forward to future years for tax purposes, that are likely to be realized. Where appropriate, income and withholding taxes are provided on the portion of any interest in consolidated foreign subsidiaries' undistributed net income, which it is reasonable to assume, will be transferred in a taxable distribution.

Environmental and reclamation costs Costs related to ongoing site restoration programs are expensed when incurred. A provision for mine closure and site closure costs is charged to earnings during the life of the operations.

Use of estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Stock option plan The Corporation has a stock option plan, which is described in note 10. Effective January 1, 2002, the Corporation adopted retroactively, without restatement of the prior-period comparative financial statements, the new CICA accounting standards for Stock-Based Compensation and Other Stock-Based Payments. Under this standard, the Corporation now accounts for stock options using the fair value method. Under this method, compensation expense for stock options granted since January 1, 2002, that are direct awards of stock, is measured at the fair value at the grant date using the Black-Scholes valuation model and is recognized over the vesting period of the options granted.

2. ACCOUNTING CHANGES

The effect of adopting the standard for Stock-Based Compensation and Other Stock-Based Payments (note 1, Stock option plan) was to decrease retained earnings by $0.2 million for those awards granted and outstanding before January 1, 2002. Selling, general and administrative expenses to December 31, 2002, include compensation costs of $4.0 million relating to outstanding options granted since January 1, 2002.

3. INVENTORIES

Inventories of $447.9 million (2001 – $460.9 million) includes, in-process – $191.6 million (2001 – $203.6 million); finished metals – $126.9 million (2001 – $126.8 million); and supplies – $129.4 million (2001 – $130.5 million).

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

December 31			2002	2001
	Cost	Accumulated depreciation and amortization	Net book value	Net book value
Plant and equipment:				
Mines, mining plants and ancillary mining assets	**$ 3,398,845**	**$ 1,470,712**	**$ 1,928,133**	$ 1,934,596
Smelters	**715,057**	**425,773**	**289,284**	303,733
Refineries	**900,650**	**522,655**	**377,995**	391,670
Other	**224,537**	**171,481**	**53,056**	50,021
	5,239,089	**2,590,621**	**2,648,468**	2,680,020
Land and properties	**436,091**	**204,523**	**231,568**	244,758
	$ 5,675,180	**$ 2,795,144**		
Development and preproduction expenditures, net			**1,074,534**	1,062,898
			$ 3,954,570	$ 3,987,676

5. DEFERRED EXPENSES AND OTHER ASSETS

Deferred expenses and other assets consist of the following:

DECEMBER 31	2002	2001
Deferred pre-development costs	**$ 131,797**	$ 99,592
Inventories and supplies	**28,088**	21,262
Employee housing advances	**6,065**	9,349
Debt discount and issue expenses, net	**8,647**	4,707
Portfolio investments	**306**	2,484
Water rights	**8,891**	9,678
Other	**14,990**	15,556
	$ 198,784	$ 162,628

6. LONG-TERM DEBT

Long-term debt consists of the following:

DECEMBER 31	2002	2001
Falconbridge Limited		
7.35% Debentures, due November 1, 2006 (U.S.$250.0 million) (b)	**$ 394,900**	$ 398,150
7.35% Debentures, due June 5, 2012 (U.S.$250.0 million) (a), (b)	**394,900**	—
7⅜% Debentures, due September 1, 2005 (U.S.$200.0 million) (b)	**315,920**	318,520
8.5% Debentures, due December 8, 2008 (a), (c)	**175,000**	175,000
Credit Facilities (d)	**153,902**	326,334
Compañía Minera Doña Inés de Collahuasi S.C.M.:		
Senior Debt (U.S.$281.9 million, 2001 – U.S.$309.7 million) (e)	**445,274**	493,242
Compañía Minera Lomas Bayas:		
Senior Debt (U.S.$90.3 million, 2001 – U.S.$98.0 million) (f)	**142,638**	156,075
Total	**$ 2,022,534**	$ 1,867,321
Less long-term debt due within one year	**99,731**	113,133
	$ 1,922,803	$ 1,754,188

(a) In June 2002, the Corporation issued U.S.$250.0 million, 7.35% debentures repayable on June 5, 2012. These debentures, and the $175.0 million, 8.5% debentures repayable on December 8, 2008, were issued under a shelf prospectus that provides for the issuance, during a two-year period ending September 2003, of debt securities of up to U.S.$600.0 million. The debentures are subordinate to all indebtedness and other liabilities of subsidiaries.

(b) The Corporation has entered into a number of interest rate swap and option transactions with terms up to 9.5 years. As a result of these transactions, at December 31, 2002, interest costs on U.S.$425.0 million (2001 – U.S.$350.0 million) of the debentures were swapped to an average fixed interest rate of 6.28% (2001 – 6.61%) and interest costs on U.S.$275.0 million (2001 – U.S.$100.0 million) were swapped to a floating rate basis at an average interest rate of 3.91% (2001 – 2.78%). The weighted average interest rate on these debentures at December 31, 2002 was 5.35% (2001 – 5.76%). If these positions had been settled at December 31, 2002, the Corporation would have received $62.2 million (2001 – received $20.2 million).

(c) The Corporation has entered into several cross currency interest rate swap transactions with terms of six years. As a result of these transactions, at December 31, 2002, interest costs on U.S.$86.3 million (2001 – U.S.$111.3 million) of the debentures were swapped to an average floating interest rate of 5.55% (2001 – 5.31%) and interest costs on U.S.$25.0 million (2001 – Nil) were swapped to a fixed interest rate of 5.0%. If these positions had been settled at December 31, 2002 the Corporation would have received $1.5 million (2001 – paid $4.0 million).

(d) The Corporation has unsecured evergreen credit facilities with various banks outstanding at December 31, 2002 (individually a "Credit Facility" and collectively the "Credit Facilities"). These Credit Facilities include U.S.$390.0 million of three-year revolvers that mature on December 13, 2005 and a U.S.$25.0 million revolving/non-revolving term facility maturing on January 31, 2005. The aggregate principal amount of the Credit Facilities is U.S.$415.0 million (2001 – U.S.$475.0 million). The revolving period of the Credit Facilities may be renewed and extended annually to maintain the three-year term of the revolver.

The Corporation has also established a commercial paper program. Unused lines of credit and cash on hand are used to support the commercial paper program.

Borrowings may be made under the Credit Facilities in Canadian dollars in the form of prime rate loans or bankers' acceptances or in U.S. dollars in the form of U.S. base rate loans or LIBOR loans. In some cases, borrowings may be in the form of letters of credit which offset amounts available under the Credit Facility. As at December 31, 2002, the Corporation had borrowed U.S.$63.5 million (2001 – Nil) and had drawn letters of credit totalling U.S.$36.5 million (2001 – Nil) under a Credit Facility. As at December 31, 2002, the Corporation had commercial paper outstanding of U.S.$27.6 million (2001 – U.S.$98.1 million) and Cdn$10.0 million (2001 – Cdn$170.1 million). Interest on U.S.$91.1 million (2001 – U.S.$98.1 million) was payable at 2.34% (2001 – 2.36%) and on Cdn$10.0 million (2001 – Cdn$170.1 million) was at 2.85% (2001 – 3.05%). Amounts outstanding under the commercial paper program are classified as debt not maturing within one year since the Corporation has both the intent and ability to refinance the borrowings on a long-term basis. The Corporation pays a standby fee, included with interest expense, on the unused portion of each Credit Facility.

(e) In November 2002, Collahuasi negotiated U.S.$270.0 million of additional replacement senior debt to partially finance the Ujina/Rosario transition/expansion project. The principal of the initial senior debt is repayable in successive, semi-annual installments which commenced in December 1999, continuing until December 2009. Proceeds from drawdowns from the replacement senior debt are used to make the scheduled initial senior debt interest and principal payments during project construction. The principal of the replacement debt is payable in 10 successive, semi-annual installments following completion of the project. The weighted average interest rate on the senior debt outstanding at December 31, 2002 was 2.69% (2001 – 3.19%).

As at December 31, 2001, Collahuasi had entered into interest rate swap agreements to partially hedge the exposure derived from the timing of LIBOR settings on loans outstanding. These swap agreements matured and were settled in December 2002. No new swap agreements were entered into during 2002.

(f) In December 2002, Lomas Bayas renegotiated the term loan due January 2003. The term was extended to January 31, 2008 with semi-annual principal repayments of U.S.$7.5 million, commencing July 31, 2003. Under the terms of the agreement the Corporation has guaranteed the repayment of the debt. Lomas Bayas has entered into two interest rate swap transactions. As a result of these transactions, at December 31, 2002, interest costs on U.S.$29.0 million (2001 – U.S.$47.0 million) were swapped to a fixed rate of 8.2% (2001 – 7.7%). The weighted average interest rate on the loan at December 31, 2002 was 6.54% (2001 – 5.39%). If these positions had been settled at December 31, 2002, Falconbridge would have paid $2.5 million (2001 – paid $3.8 million).

(g) The weighted average interest rate on the long-term debt portfolio, including the effect of interest rate swap agreements, at December 31, 2002 was 4.63% (2001 – 4.48%).

(h) Assuming that the Credit Facilities will continue to be renewed, long-term debt will mature as follows:

Year ending December 31,	2003	$ 99,731
	2004	111,578
	2005	443,775
	2006	459,292
	2007	64,392
	thereafter	843,766
		$ 2,022,534

(i) At December 31, 2002, the market value of Falconbridge's total debt, excluding the effect of interest rate swap agreements, was $2,099.1 million (2001 – $1,873.1 million).

7. INCOME AND MINING TAXES

(a) Consolidated income and mining taxes consist of the following:

YEAR ENDED DECEMBER 31	2002	2001
Current		
Federal and provincial income taxes	**$ 5,824**	$ 5,608
Foreign taxes	**9,334**	(5,781)
	15,158	(173)
Future		
Federal and provincial income taxes	**(56,253)**	(82,165)
Provincial mining taxes	**(4,708)**	(6,108)
Foreign taxes	**20,984**	13,044
	(39,977)	(75,229)
	$ (24,819)	$ (75,402)

(b) The difference between the amount of the reported consolidated income and mining taxes and the amount computed by multiplying the earnings before taxes by the Corporation's applicable tax rates is reconciled as follows:

YEAR ENDED DECEMBER 31	2002	2001
Taxes computed using the Corporation's tax rates*	**$ 19,392**	$ (24,970)
Adjust for –		
Foreign tax rates, net (i)	**(42,195)**	(32,069)
Mining taxes	**(4,708)**	(6,108)
Resource and depletion allowances	**1,892**	4,600
Non-taxable income	**(5,300)**	(7,635)
Non-claimable expenses	**5,279**	2,343
Ontario income tax rate reduction	**—**	(20,033)
Other	**821**	8,470
Income and mining taxes	**$ (24,819)**	$ (75,402)
*Federal and provincial income tax rates	**40.12%**	41.12%

(i) The Corporation has non-resident subsidiaries that have undistributed earnings on which no taxes have been provided. These earnings, which amount to approximately U.S.$360.6 million (2001 – U.S.$343.9 million), have been permanently reinvested outside Canada and are used to finance non-Canadian investments, and exploration and development projects.

(c) The components of the future income tax liability at December 31, 2002 are as follows:

YEAR ENDED DECEMBER 31	2002	2001
Future income and mining tax liabilities		
Property, plant and equipment	**$ 297,697**	$ 324,223
Development and preproduction	**165,259**	175,200
Foreign exchange	**21,941**	25,749
Other	**37,786**	26,573
	522,683	551,745
Future income and mining tax assets		
Exploration	**14,489**	—
Pensions	**9,802**	12,373
Post-employment benefits	**69,214**	66,149
Reclamation provisions	**28,019**	24,767
Inventory obsolescence	**11,821**	7,953
Non-capital losses	**152,083**	153,488
Research and development	**16,404**	13,424
Other	**33,854**	56,669
	335,686	334,823
Net future income and mining tax liability	**$ 186,997**	$ 216,922

8. EMPLOYEE FUTURE BENEFITS

Falconbridge maintains defined benefit retirement plans providing retirement, death and termination benefits for certain salaried and hourly-rated employees. Pension benefits are calculated based upon length of service and either final average earnings or a specified amount per year of service. Funding and pension plan assets (which consist principally of cash, equity securities and fixed income securities) for the defined benefit plans are primarily governed by the *Ontario Pension Benefits Act*. Pension benefits provided for certain employees through group annuity contracts are fully funded. The Kidd Creek Operations and Société minière Raglan du Québec ltée make monthly contributions on behalf of employees under a defined contribution retirement savings program.

Falconbridge provides retiree health, dental and life insurance benefits to certain employees. These plans require no contributions from employees. Other post-employment benefits are recognized when the event triggering the obligation occurs.

The funded status of Falconbridge's defined benefit pension plans and post-employment benefit plans other than pensions are as follows:

Defined benefit pension plans

DECEMBER 31	2002		2001	
	Plans where assets exceed accumulated benefits	Plans where accumulated benefits exceed assets	Plans where assets exceed accumulated benefits	Plans where accumulated benefits exceed assets
Plan assets at fair value	**$ 40,987**	**$ 718,175**	$ 45,299	$ 782,141
Projected benefit obligations	**27,026**	**1,010,582**	28,484	997,120
Plan assets in excess of (less than) projected benefit obligations	**$ 13,961**	**$ (292,407)**	$ 16,815	$ (214,979)

Post-employment benefit plans other than pensions

DECEMBER 31	2002	2001
Plan assets at fair value	**$ 16,121**	$ 16,553
Projected benefit obligation	**260,529**	255,675
Plan assets less than projected benefit obligations	**$ (244,408)**	$ (239,122)

The differences between amounts expensed and amounts funded, which represent the accrued liability for employee future benefits on the Statements of Financial Position, are as follows:

DECEMBER 31	2002	2001
Defined benefit pension plans	**$ 15,921**	$ 33,984
Post-employment benefit plans other than pensions	**223,648**	214,287
Excess of amounts expensed over amounts funded	**$ 239,569**	$ 248,271

Falconbridge's post-employment benefit expense included the following components:

DECEMBER 31	2002		2001	
	Pension benefit plans	Other benefit plans	Pension benefit pans	Other benefit plans
Service cost	**$ 14,160**	**$ 6,729**	$ 14,752	$ 5,668
Interest cost	**68,660**	**17,035**	67,161	16,454
Expected return on plan assets	**(56,803)**	**(1,089)**	(60,503)	(1,041)
Actuarial losses	**11,034**	**411**	5,784	—
Valuation allowance provided against accrued benefit asset	**547**	**—**	564	—
Curtailment losses	**128**	**—**	—	—
Other	**—**	**2,031**	—	(1,057)
Defined benefit plan expense	**37,726**	**25,117**	27,758	20,024
Defined contribution plan expense	**9,381**	**—**	8,705	—
Post-employment benefit expense	**$ 47,107**	**$ 25,117**	$ 36,463	$ 20,024

The change in the funded status of Falconbridge's post-retirement benefit plans was as follows:

DECEMBER 31		2002		2001
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
PROJECTED BENEFIT OBLIGATION				
Balance at beginning of year	**$ 1,025,604**	**$ 255,675**	$ 919,298	$ 226,683
Current service cost	**14,160**	**6,729**	14,752	5,668
Benefits paid	**(74,315)**	**(17,859)**	(74,031)	(15,868)
Interest cost	**68,660**	**17,035**	67,162	16,454
Actuarial losses	**9,441**	**158**	96,444	22,463
Curtailments	**(10,285)**	**—**	—	—
Effect of exchange rate changes	**4,343**	**(1,209)**	1,979	275
Balance at end of year	**$ 1,037,608**	**$ 260,529**	$ 1,025,604	$ 255,675
PLAN ASSETS				
Balance at beginning of year	**$ 827,440**	**$ 16,553**	$ 873,744	$ 15,181
Expected return on plan assets	**56,803**	**1,089**	60,503	1,041
Experience loss on fund assets	**(102,018)**	**—**	(77,997)	956
Employer contributions	**52,325**	**16,338**	39,858	15,243
Benefits paid	**(70,500)**	**(17,859)**	(70,337)	(15,868)
Curtailments	**(10,695)**	**—**	—	—
Effect of exchange rate changes	**5,807**	**—**	1,669	—
Balance at end of year	**$ 759,162**	**$ 16,121**	$ 827,440	$ 16,553
Plan deficit	**$ 278,446**	**$ 244,408**	$ 198,164	$ 239,122

DECEMBER 31		2002		2001
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
RECONCILIATION OF ACCRUED BENEFIT LIABILITY TO DEFICIT				
Accrued benefit liability	**$ 15,921**	**$ 223,648**	$ 33,984	$ 214,287
Unamortized past service costs	**5,199**	**867**	9,655	—
Unamortized net actuarial losses	**268,034**	**19,893**	163,672	25,815
Projected benefit obligation	**289,154**	**244,408**	207,311	240,102
Valuation allowance	**(10,708)**	**—**	(10,594)	—
Other	**—**	**—**	1,447	(980)
Plan deficit	**$ 278,446**	**$ 244,408**	$ 198,164	$ 239,122

The significant actuarial assumptions used in measuring Falconbridge's post-retirement benefit obligations were as follows:

	Pension benefit plans		Other benefit plans	
DECEMBER 31	2002	2001	2002	2001
Discount rate	**6.75%**	6.75%	**6.75%**	6.75%
Expected long-term rate of return on plan assets	**7.00%**	7.00%		
Rate of compensation increase	**3.50%**	3.50%		
Effect of 1% increase in assumed health care cost trend rates				
Total of service and interest cost components			**$ 2,691**	$ 2,389
Post-employment benefit obligation			**31,879**	29,060
Effect of 1% decrease in assumed health care cost trend rates				
Total of service and interest cost components			**$ (2,153)**	$ (1,877)
Post-employment benefit obligation			**(22,771)**	(22,354)

The health care cost trend rate is assumed to start at 8.5% for 2002 (2001 – 9%), decreasing to an ultimate medical trend rate of 4% (2001 – 4%).

9. OTHER LONG-TERM LIABILITIES

Other long-term liabilities consist of the following:

December 31	2002	2001
Future removal and site restoration costs	**$ 93,344**	$ 85,195
Other	**21,914**	18,070
	$ 115,258	$ 103,265

The business conducted by Falconbridge has been, and may in the future be, affected by changes in environmental legislation and other requirements including those related to future removal and site restoration costs. As Falconbridge operates in many countries, both the likelihood of changes in legislation and its impact upon Falconbridge are not predictable.

Falconbridge's policy is to meet and, if possible, surpass standards set by relevant legislation, through the application of innovative and technically proven economical measures in advance of prescribed deadlines. In addition, Falconbridge incurs substantial removal and site restoration costs on an ongoing basis, which it believes, will mitigate future removal and site restoration costs.

The total liability for future site restoration costs in relation to Falconbridge's worldwide operations, which will be incurred primarily after the cessation of operations, is estimated to be approximately $225.0 million (2001 – $225.0 million). This estimate is based on information currently available, including closure plans and alternatives, applicable regulations and planned spending on site restoration. At December 31, 2002, Falconbridge had provided $93.3 million (2001 – $85.2 million), in addition to ongoing capital and operating expenditures. The remaining balance will be accrued and expensed during the remaining lives of the operations.

In view of the uncertainties concerning future removal and site restoration costs, the ultimate costs to Falconbridge could differ materially from the amounts estimated. The estimate for the future liability is subject to change based on amendments to applicable laws and legislation, the nature of ongoing operations and technological innovations. Future changes, if any, due to their nature and unpredictability, could have a significant impact and would be reflected prospectively, as a change in an accounting estimate.

10. SHARE CAPITAL

(a) **Employee stock option plan** The Corporation has a stock option plan, through which options may be granted to officers and employees for the purchase of common shares. Options were granted at prices equal to the closing market value on the last trading day or period prior to the grant. Stock options granted from 1997 through December 31, 1999 have a 10-year term and contain vesting provisions of 20% on the first anniversary date following the date of the grant, and a further 20% on each of the four subsequent anniversary dates. Stock options granted since January 1, 2000 have a 10-year term with the same vesting provisions; however, they also contain an accelerated vesting feature specifying that on the first day that the market price of the common shares is 20% greater than the exercise price of the option, the final tranche of unvested options outstanding on that date will immediately vest and be exercisable. In 2002, the Corporation amended the terms of its outstanding stock options to eliminate the cash settlement feature.

Deferred Share Unit Plan for Non-Employee Directors During 2002, the Corporation approved a deferred share unit plan for non-employee directors (DSUPD). Under the DSUPD, each eligible director may elect to be paid annual retainer fees and/or meeting attendance fees in deferred share units (DSU) rather than in cash. A DSU is a notional unit, equivalent to a common share. DSUs are credited with dividend equivalents when dividends are paid on the Corporation's common shares. Payment of DSUs is made in cash or common shares after the director leaves the Board. As of December 31, 2002 a total of 2,176 DSUs were held by participating directors.

A summary of the status of the stock option plan and changes during the years is presented below:

	2002		2001	
	Options (000s)	Weighted-average exercise price	Options (000s)	Weighted-average exercise price
Outstanding, beginning of year	**3,658**	**$ 18.60**	2,827	$ 20.35
Granted	**1,168**	**16.65**	1,107	15.93
Exercised				
Purchase option	**(43)**	**17.22**	(3)	15.67
Market growth option	**(275)**	**16.56**	(37)	15.86
Cancelled	**(95)**	**18.06**	(236)	27.48
Outstanding, end of year	**4,413**	**$ 18.24**	3,658	$ 18.60

The following table summarizes information about the stock options outstanding at December 31, 2002:

	Options outstanding		
Range of exercise prices	Number (000s) at December 31, 2002	Weighted-average remaining contractual life	Weighted-average exercise price
$ 15.67 to $ 15.93	**1,587**	**7.3**	**$ 15.83**
$ 16.58 to $ 17.45	**1,086**	**8.3**	**$ 16.66**
$ 18.50 to $ 20.14	**1,320**	**6.4**	**$ 18.80**
$ 26.25 to $ 31.10	**420**	**4.4**	**$ 27.77**
$ 15.67 to $ 31.10	**4,413**	**6.8**	**$ 18.24**

	Options exercisable	
Range of exercise prices	Number (000s) at December 31, 2002	Weighted-average exercise price
$ 15.67 to $ 15.93	**639**	**$ 15.80**
$ 16.58 to $ 17.45	**163**	**$ 16.58**
$ 18.50 to $ 20.14	**924**	**$ 19.38**
$ 26.25 to $ 31.10	**420**	**$ 27.60**
$ 15.67 to $ 31.10	**2,146**	**$ 19.71**

(b) **Preferred shares** On March 7, 1997 the Corporation issued 8,000,000 Units, at a price of $10.00 per Unit, with each Unit consisting of one Cumulative Preferred Share Series 1 (a "Preferred Share Series 1") and one Cumulative Preferred Share Series 2 Purchase Warrant (a "Warrant"). Since September 1, 1998, the quarterly dividend on Preferred Share Series 1 has been $0.02 per share. The holders of the Units had the right to acquire on certain dates, for each Unit held, one Cumulative Preferred Share Series 2 (a "Preferred Share Series 2") of the Corporation by the combined effect of tendering for conversion one Preferred Share Series 1 and the exercise of one Warrant together with the cash payment of $15.00 per Warrant. A total of 7,910,165 units has been converted into Preferred Share Series 2.

Until March 1, 2004, the Preferred Share Series 2 will be entitled to fixed cumulative preferential dividends, as and when declared by the Board of Directors, which will accrue from the date of issue and be payable quarterly in the amount of $0.3672 per share or $1.4688 per share per annum. From March 1, 2004, the Preferred Share Series 2 will be entitled to floating adjustable cumulative preferential cash dividends as and when declared by the Board of Directors.

Holders of Preferred Share Series 2 will have the right to convert their shares into Cumulative Preferred Share Series 3 of the Corporation, subject to certain conditions on March 1, 2004 and every five years thereafter. On March 1, 2004, the Corporation may redeem for cash the Preferred Share Series 2, in whole but not in part, at the Corporation's option, at $25.00 per share plus accrued and unpaid dividends. Subsequent to March 1, 2004, the Corporation may redeem at any time for cash the Preferred Share Series 2, in whole but not in part, at the Corporation's option, at $25.50 per share plus accrued and unpaid dividends.

(c) **Earnings and cash flow per common share** In 2001, the Corporation adopted the new Canadian Institute of Chartered Accountants (CICA) accounting standard Earnings per Share, retroactively with restatement of the prior year. The new standard requires the use of the treasury stock method to compute the dilutive effect of stock options. The adoption of the new standard did not have a material impact on the calculation of earnings per share.

Earnings and cash flow per common share have been calculated after deducting preferred share dividends of $12.5 million (2001 – $12.0 million) and have been based on the weighted average number of common shares outstanding during the year of 177,021,546 shares (2001 – 176,977,100 shares). Diluted earnings per share have been based on the weighted average number of common shares outstanding during the year of 181,434,246 shares (2001 – 177,060,100 shares).

(d) **Flow-through shares** In December 2002, the Corporation completed a private placement of 583,386 flow-through common shares at a price of $20.75 per share for gross proceeds of $12.1 million. The proceeds of the issue will be used to fund the Corporation's Canadian exploration expenditures.

(e) **Repurchase of common shares** The Corporation may repurchase for cancellation up to 750,000 common shares representing approximately 0.5% of its outstanding common shares under the rules of a normal course issuer bid through the facilities of the Toronto Stock Exchange (TSX). The bid commenced on January 15, 2003. The bid will terminate on the earlier of the repurchase of 750,000 common shares, the Corporation providing the TSX with a notice of termination, or January 14, 2004.

11. INTEREST

Interest includes the following:

YEAR ENDED DECEMBER 31	2002	2001
Interest on long-term debt	**$ 96,985**	$ 100,296
Interest on short-term debt	**—**	102
Interest income	**(8,787)**	(13,725)
	$ 88,198	$ 86,673

There was no interest capitalized in either year.

12. COLLAHUASI JOINT VENTURE

Compañía Minera Doña Inés de Collahuasi S.C.M. (Collahuasi) is the corporation which owns the mining and water rights and other assets relating to Collahuasi and secured financing, conducts the operations and markets the products of the property.

The consolidated financial statements include Falconbridge's 44% share of the financial position, operating results and cash flow of Collahuasi as follows:

DECEMBER 31	2002	2001
Financial Position		
ASSETS		
Current assets (a)	**$ 224,191**	$ 161,209
Property, plant and equipment	**1,240,025**	1,248,031
Other	**34,220**	29,507
Total assets	**$ 1,498,436**	$ 1,438,747
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	**$ 127,911**	$ 122,895
Long-term debt		
Senior debt	**357,390**	404,635
Intercompany debt	**407,183**	395,967
Other long-term liabilities	**113,961**	87,247
Shareholders' equity	**491,991**	428,003
Total liabilities and shareholders' equity	**$ 1,498,436**	$ 1,438,747
Earnings		
Revenues	**$ 386,576**	$ 365,718
Earnings for the year	**$ 71,514**	$ 48,119
Cash Flow		
Cash flow provided by (used in):		
Operating activities	**$ 199,429**	$ 144,964
Investing activities	**(102,795)**	(49,904)
Financing activities	**(30,127)**	(61,049)
Increase in cash and cash equivalents	**$ 66,507**	$ 34,011

(a) Current assets include cash of $139.7 million (2001 – $73.2 million) which is only available for use within the operation.

During the year, the Board of Directors of Compañía Minera Doña Inés de Collahuasi approved the construction of a new grinding circuit at the Ujina concentrator. This is part of the Ujina to Rosario transition project, which also involves transferring mine production from the Ujina pit to the Rosario ore body in June of 2004. The project will increase Collahuasi's concentrator design capacity to 110,000 tonnes per day. The total capital cost of the transition and concentrator expansion project is estimated at U.S.$654.0 million, with Falconbridge's 44% share of this cost totalling U.S.$288.0 million.

13. SEGMENTED DATA

Falconbridge operates in one industry – mining, processing and marketing of mineral products. These activities are conducted through six segments – the Integrated Nickel Operations (INO), Kidd Creek, Falcondo, Collahuasi, Lomas Bayas and Corporate. The INO includes the accounts of the Corporation and all of its wholly-owned subsidiaries engaged in the integrated operations of mining, milling, smelting, refining and marketing of metals mainly derived from Sudbury and Raglan nickel/copper ores and its custom feed business. Kidd Creek includes the mining, milling, smelting and refining of its own copper/zinc ores and its custom feed business. Falcondo mines, mills, smelts and refines its own nickel laterite ores. Collahuasi is a copper mine in which Falconbridge owns 44%. Lomas Bayas mines and refines its own copper ores. Corporate includes general and administrative expenditures, exploration, research and development expenditures, foreign exchange gains and losses, and other income and expenses.

The accounting policies used by these segments are the same as those described in the Summary of Significant Accounting Policies in note 1. Any sales and transfers between the segments are accounted for as if the sales or transfers were to third parties, that is, at current market prices. During the preparation of the financial statements the transfers between segments are eliminated.

As the products and services in each of the reportable segments, except for Corporate, are essentially the same, the reportable segments have been selected at the level where decisions are made on the provision of resources, capital and where performance is measured. For operations forming part of a reportable segment, performance is measured based on production targets, operating costs incurred and unit operating costs.

(a) Segmented information:

	Nickel		Copper				
(MILLIONS)	INO	Falcondo	Kidd Creek	Collahuasi	Lomas Bayas	Corporate and other	Total
YEAR ENDED DECEMBER 31, 2002							
Ownership	**(100%)**	**(85.26%)**	**(100%)**	**(44%)**	**(100%)**	**(100%)**	
Revenues (a)	**$ 1,088**	**$ 234**	**$ 534**	**$ 386**	**$ 152**	**$ —**	**$ 2,394**
Operating income (loss)	**147**	**1**	**(78)**	**132**	**28**	**(93)**	**137**
Working capital	**322**	**58**	**66**	**95**	**41**	**45**	**627**
Depreciation, depletion and amortization	**152**	**11**	**79**	**81**	**23**	**3**	**349**
Property, plant & equipment	**1,294**	**131**	**928**	**1,372**	**222**	**8**	**3,955**
Capital expenditures & deferred project costs	**110**	**22**	**124**	**84**	**17**	**1**	**358**
YEAR ENDED DECEMBER 31, 2001							
Ownership	(100%)	(85.26%)	(100%)	(44%)	(100%)	(100%)	
Revenues (a)	$ 969	$ 237	$ 505	$ 366	$ 61	$ —	$ 2,138
Operating income (loss)	85	(18)	(64)	122	8	(107)	26
Working capital	269	76	58	67	(6)	18	482
Depreciation, depletion and amortization	160	12	75	74	10	—	331
Property, plant & equipment	1,348	121	895	1,380	231	13	3,988
Capital expenditures & deferred project costs	99	23	162	29	2	33	348
Principal base of operations	Canada	Dominican Republic	Canada	Chile	Chile	Canada	

(a) Inter-segment sales are eliminated during the preparation of the internal financial statements.

(b) Identifiable assets by geographic location are as follows:

DECEMBER 31 (MILLIONS)	Total assets 2002	Total assets 2001	Property, plant and equipment 2002	Property, plant and equipment 2001
Canada	**$ 2,485**	$ 2,496	**$ 2,036**	$ 2,050
Chile	**1,909**	1,874	**1,565**	1,585
Barbados	**92**	60	**2**	1
Norway	**225**	228	**209**	218
Dominican Republic	**272**	222	**131**	121
Other	**221**	189	**12**	13
	$ 5,204	$ 5,069	**$ 3,955**	$ 3,988

(c) Consolidated sales revenues:

(i) By geographic location of customers:

YEAR ENDED DECEMBER 31 (MILLIONS)	2002 Amount	2002 %	2001 Amount	2001 %
Europe	**$ 1,038**	**43**	$ 855	40
U.S.	**673**	**28**	684	32
Other	**443**	**19**	405	19
Total foreign*	**$ 2,154**	**90**	$ 1,944	91
Canada	**240**	**10**	194	9
	$ 2,394	**100**	$ 2,138	100
*Includes sales by Canadian operations to foreign customers	**$ 1,155**		$ 1,075	

(ii) By product category:

YEAR ENDED DECEMBER 31 (MILLIONS)	2002 Amount	2002 %	2001 Amount	2001 %
Nickel	**$ 776**	**32**	$ 638	30
Ferronickel	**234**	**10**	238	11
Copper	**970**	**41**	794	37
Zinc	**197**	**8**	213	10
Cobalt	**71**	**3**	77	4
Palladium	**53**	**2**	124	6
Other	**93**	**4**	54	2
	$ 2,394	**100**	$ 2,138	100

14. FINANCIAL INSTRUMENTS

The Corporation's Board of Directors approved a financial risk management policy addressing the philosophy, implementation and control of financial risk management and investment activities. Falconbridge manages its exposures by entering into contractual arrangements (derivatives) which reduce (hedge) the exposures by creating an offsetting position.

Falconbridge has significant investments in foreign domiciled operations. In addition, the Corporation has foreign currency denominated monetary assets and liabilities. Consistent with the financial risk management policy, these items are hedged by issuing debt in the same currency as the investment, and by entering into forward exchange and option contracts. At December 31, 2002, the Corporation had outstanding foreign currency forward contracts relating to these exposures to sell a notional amount of U.S.$61.3 million, with maturity dates through April 2003 at an average exchange rate of Cdn$1.5637 (2001 – U.S.$283.9 million at Cdn$1.5757). If these contracts had been settled at December 31, 2002, the Corporation would have owed $1.1 million (2001 – owed $4.9 million). At December 31, 2002, Falconbridge also had foreign currency forward contracts to sell U.S.$94.2 million (2001 – U.S.$25.9 million) for Chilean pesos to hedge certain expenditures associated with its Chilean operations for periods extending through March 2004. If these contracts had been settled at December 31, 2002, Falconbridge would have paid $5.9 million (2001 – paid $0.8 million).

Falconbridge's sales are denominated primarily in U.S. dollars and to a lesser extent in Euros, Yen and other foreign currencies, and it incurs expenses that are denominated in foreign currencies, which expose it to increased volatility in earnings due to fluctuations in foreign exchange rates. Falconbridge uses foreign currency forward exchange contracts and options to reduce these exposures by creating an offsetting position. The Corporation has foreign currency exchange contracts, designated as a hedge of its U.S. dollar sales revenue, to sell U.S.$415.0 million maturing over the next 24 months at an average exchange rate of Cdn$1.5734 (2001 – U.S.$400.0 million at Cdn$1.5485). In addition, the Corporation also has option contracts that if exercised, would result in additional sales of U.S.$125.0 million over the next five months (2001 – U.S.$105.0 million). If these contracts had been settled at December 31, 2002, the Corporation would have paid $10.9 million (2001 – paid $17.8 million). Falconbridge has foreign currency exchange contracts, designated as a hedge of its Norwegian Kroner expenditures, to purchase $333.0 million Norwegian Kroner, up to September 2007, at an average exchange rate of Cdn$0.1984 (2001 – $75.0 million Norwegian Kroner at Cdn$0.1690). In addition, the Corporation also has option contracts that if exercised, would result in additional purchases of $165.0 million Norwegian Kroner over the next 10 months (2001 – $75.0 million Norwegian Kroner). If these contracts had been settled at December 31, 2002, Falconbridge would have received $5.7 million (2001 – received $0.5 million).

Falconbridge's risk management policy provides for the limited use of financial instruments for discretionary trading purposes. However, Falconbridge normally does not acquire, hold or issue derivative financial instruments for trading purposes.

The fair value of Falconbridge's primary financial instruments, including cash and cash equivalents, accounts and metals settlements receivable, and accounts payable and accrued charges approximates their carrying value due to the short-term nature of these instruments. The fair value of the long-term debt and interest rate swaps is disclosed in note 6.

Falconbridge does not consider the credit risk associated with its financial instruments to be significant. Foreign currency and interest rate swap contracts are maintained with high-quality counterparties and Falconbridge does not anticipate that any counterparties will fail to meet their obligation. Falconbridge does not have significant exposure to any individual customer and these risks are further managed through a highly effective credit management program. Falconbridge's policy is to enter into short-term investments in high-quality debt obligations.

Falconbridge is exposed to interest rate risk as a result of its issuance of debt. Falconbridge reduces its borrowing costs and hedges its exposure to interest rate risk through the use of interest rate swaps and interest rate swap options, the details of which are disclosed in note 6.

15. RELATED PARTY TRANSACTIONS

At December 31, 2002, Noranda Inc. (Noranda) owned, directly and indirectly, approximately 59.5% of the common shares of the Corporation. Falconbridge has entered into an agreement with a subsidiary of Noranda, whereby it acts as sales agent for all products, other than sulphuric acid and indium, produced at Falconbridge's Kidd Creek Operations. Falconbridge has entered into a supply agreement with another subsidiary of Noranda which will purchase and resell Falconbridge's output of sulphuric acid. Accounts receivable, in the consolidated statements of financial position, includes $37.3 million (2001 – $41.3 million) receivable from Noranda relating to amounts being collected under the sales agreements and $9.7 million (2001 – $3.5 million) from purchases of material by Noranda. Falconbridge also has agreements with various other Noranda group companies for the purchase of custom feeds; the toll treatment of copper concentrates, blister copper and refinery slimes; and the sale of metals.

The following table details related party production and marketing transactions with Noranda Group Companies:

YEAR ENDED DECEMBER 31	2002	2001
Sale of materials and technology to Noranda (a)	**$ 113,014**	$ 45,908
Purchase of materials from and smelting and refining fees paid to Noranda (b)	**58,530**	2,791
Commissions and agency fees paid to Noranda (c)	**1,191**	1,586
Fees paid relating to sulphuric acid (a)	**3,209**	5,681
Other (a), (b), (d)	**694**	4,760

Included in the Corporation's Consolidated Financial Statements in (a) Revenues; (b) Cost of metal and other product sales; (c) Selling, general and administrative expenses; (d) Other (income) expenses.

During the year, a process was initiated to integrate certain activities of Noranda and Falconbridge with the objective of maximizing synergies. The initiatives undertaken have included the alignment of various corporate support services and the merging of management teams. Agreements between Falconbridge and the Noranda group companies are negotiated on terms which are fair and equitable to Falconbridge and reflect fair market terms.

16. ACQUISITION

On July 26, 2001 Falconbridge acquired all of the issued and outstanding shares of Compañía Minera Falconbridge Lomas Bayas (Lomas Bayas – formerly Compañía Minera Lomas Bayas) and Compañía Minera Falconbridge Limitada (formerly Compañía Minera Boliden Westmin Chile Limitada) for cash consideration of $100.7 million. The results of operations have been included in the consolidated financial statements from that date. Lomas Bayas is engaged in the exploration for and mining of copper in Chile.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

Cash and cash equivalents	$ 16,867
Other current assets	23,637
Capital assets	220,601
Future income and mining taxes	17,777
Intangibles	7,363
Other non-current assets	3,486
Total assets acquired	289,731
Current portion of long-term debt	23,566
Other current liabilities	25,719
Long-term debt	138,187
Other long-term liabilities	1,530
Total liabilities assumed	189,002
Net assets acquired	$ 100,729

The intangible assets represent water rights with an indefinite life that are not subject to amortization.

Falconbridge also has the right to retain the Fortuna de Cobre copper deposit by making a payment of U.S.$15.0 million before July 26, 2006.

17. COMMITMENTS AND CONTINGENCIES

(a) The Corporation has received an exemption granted by the Ontario government, until December 31, 2009, from a requirement to refine in Canada ores mined from certain properties of the Corporation in Ontario. This exemption is limited to the quantity of nickel-copper matte capable of yielding not more than 100,000,000 pounds of refined nickel per year.

(b) From time to time, Falconbridge is involved in litigation, investigations or proceedings relating to claims arising out of its operations in the ordinary course of business. In the opinion of management, the aggregate amount of any potential liability is not expected to have a material adverse effect on Falconbridge's financial position or results.

18. COMPARATIVE AMOUNTS

Certain of the comparative figures have been restated to conform to the current year's presentation.

TEN-YEAR REVIEW

(UNAUDITED)		2002	2001	2000
Operating results ($000s)				
Revenues		**2,394,035**	2,138,249	2,614,596
EBITDA(1)		**485,385**	356,911	826,397
Depreciation, depletion and amortization		**348,704**	330,853	290,762
Earnings (loss) for the year		**73,354**	15,967	368,273
Operating cash flow		**341,427**	354,447	657,350
Capital expenditures and deferred project costs		**357,740**	348,328	249,628
Per common share data				
Net income (loss)		**0.34**	0.02	2.01
Cash dividends		**0.40**	0.40	0.40
Operating cash flow		**1.86**	1.93	3.65
Number of common shares issued at end of year (000s)		**177,603**	176,977	176,977
Financial position ($000s)				
Cash and equivalents		**259,933**	198,315	250,438
Total assets		**5,203,590**	5,069,460	4,809,995
Working capital		**626,560**	482,396	639,891
Property, plant and equipment, net		**3,954,570**	3,987,676	3,663,646
Long-term debt		**2,022,534**	1,867,321	1,462,012
Shareholders' equity		**2,285,301**	2,280,008	2,346,964
Total liabilities		**2,918,289**	2,789,452	2,463,031
Net debt/net debt plus equity		**44%**	42%	34%
Return on common shareholders' equity		**3%**	0%	17%
Return on net assets employed		**4%**	1%	14%
Production statistics (tonnes)				
Mine Nickel	– Sudbury	**27,833**	25,226	23,234
	– Raglan	**24,636**	24,570	23,089
	– Falcondo	**23,303**	21,662	27,830
		75,772	71,458	74,153
Refined Nickel	– FNA	**68,530**	68,221	58,679
	– Falcondo	**23,303**	21,662	27,830
		91,833	89,883	86,509
Mine Copper	– Sudbury	**31,050**	22,858	20,990
	– Raglan	**6,500**	6,915	6,308
	– Kidd Creek	**45,434**	42,340	54,926
	– Collahuasi	**185,014**	193,135	186,073
	– Lomas Bayas	**59,304**	24,702	—
		327,302	289,950	268,297
Refined Copper	– FNA	**30,632**	26,722	25,307
	– Kidd Creek	**146,526**	127,824	122,987
	– Collahuasi	**26,678**	26,180	25,579
	– Lomas Bayas	**59,304**	24,702	—
		263,140	205,428	173,873

(1) EBITDA – represents earnings before interest, income and mining taxes, depreciation and amortization, and non-controlling interest.
N/A – not applicable – prior to the IPO in 1994.

1999	1998	1997	1996	1995	1994	1993
2,173,479	1,673,756	2,092,597	2,145,003	2,323,608	1,960,335	1,432,953
589,632	176,114	441,770	609,643	709,116	455,200	194,848
293,092	195,332	187,159	184,571	158,351	160,967	159,528
153,097	(36,398)	137,047	247,926	333,222	131,252	(44,462)
349,053	176,926	391,775	540,377	554,230	329,044	188,149
169,687	658,554	1,023,962	686,404	251,017	102,441	85,606
0.80	(0.24)	0.75	1.40	1.89	N/A	N/A
0.40	0.40	0.40	0.40	0.40	N/A	N/A
1.91	0.96	2.19	3.05	3.14	N/A	N/A
176,971	176,968	176,968	176,946	176,848	N/A	N/A
101,485	99,805	129,702	316,815	464,266	307,548	31,829
4,737,044	4,798,741	4,313,907	3,595,248	3,309,130	2,901,903	2,536,939
527,139	425,434	479,085	696,470	928,805	640,903	153,157
3,665,656	3,931,841	3,398,993	2,535,308	2,068,060	1,850,222	1,911,040
1,575,047	1,725,639	1,136,363	636,809	619,801	473,389	1,627,466
2,394,876	2,318,040	2,320,015	2,180,843	2,001,849	1,732,602	240,792
2,342,168	2,480,701	1,993,892	1,414,405	1,307,281	1,169,301	2,296,147
38%	41%	30%	13%	7%	N/A	N/A
6%	–2%	6%	11%	17%	N/A	N/A
10%	–1%	14%	25%	31%	N/A	N/A
35,678	38,348	38,225	42,546	34,254	37,313	38,223
19,524	16,365	—	—	—	—	—
24,454	25,209	32,545	30,376	30,885	30,758	23,861
79,656	79,922	70,770	72,922	65,139	68,071	62,084
74,137	70,152	62,702	61,584	53,238	67,955	56,817
24,454	25,209	32,545	30,376	30,885	30,758	23,861
98,591	95,361	95,247	91,960	84,123	98,713	80,678
40,999	46,235	42,663	48,890	41,588	44,388	44,046
4,930	4,365	—	—	—	—	—
67,429	67,143	75,751	86,157	83,401	80,693	109,044
185,739	—	—	—	—	—	—
—	—	—	—	—	—	—
299,097	117,743	118,414	135,047	124,989	125,081	153,090
33,262	31,658	32,870	33,938	34,333	39,415	37,205
121,278	114,987	114,594	99,109	101,984	104,948	98,041
22,573	—	—	—	—	—	—
—	—	—	—	—	—	—
177,113	146,645	147,464	133,047	136,317	144,363	135,246

CONSOLIDATED RESULTS – 2002 AND 2001 BY QUARTERS

(UNAUDITED)			2002
	1st Qtr.	2nd Qtr.	3rd Qtr.
OPERATIONS (thousands, except per share data)			
Revenues	$ 525,595	$ 634,439	$ 538,936
Operating expenses			
Costs of metal and other product sales	370,743	428,682	406,625
Selling, general and administrative	36,349	31,887	32,861
Development and preproduction	24,504	28,834	22,203
Depreciation and depletion	65,623	65,885	64,687
Exploration	6,369	8,565	12,623
Research and process development	3,186	3,376	2,696
Other (income)/expenses	(9,971)	(3,552)	15,035
	496,803	563,677	556,730
Operating income (loss)	28,792	70,762	(17,794)
Interest	20,752	22,911	22,317
Earnings (loss) before taxes and non-controlling interest	8,040	47,851	(40,111)
Income and mining taxes (credit) expense	(11,222)	5,826	(19,209)
Non-controlling interest in (loss) earnings of subsidiaries	(1,168)	879	419
Earnings (loss) for the period	20,430	41,146	(21,321)
Dividends on preferred shares	3,128	3,127	3,127
Earnings (loss) attributable to common shares	$ 17,302	$ 38,019	$ (24,448)
Earnings (loss) per common share (note 1)	$ 0.10	$ 0.21	$ (0.14)
Weighted average number of shares outstanding (thousands)	176,977	177,018	177,020
EARNINGS (LOSS) CONTRIBUTIONS (thousands)			
Principal operations –			
Integrated Nickel Operations (INO)	$ 39,998	$ 45,590	$ 9,025
Falconbridge Dominicana, C. por A.	(15,509)	12,055	6,189
Nickel Operations	24,489	57,645	15,214
Kidd Creek Operations	(20,827)	(18,234)	(14,889)
Collahuasi	33,210	44,045	19,778
Lomas Bayas	8,810	6,592	4,467
Copper Operations	21,193	32,403	9,356
Corporate and other	(16,890)	(19,286)	(42,364)
Operating income (loss)	28,792	70,762	(17,794)
Interest	20,752	22,911	22,317
Income and mining taxes (credit) expense	(11,222)	5,826	(19,209)
Non-controlling interest in (loss) earnings of subsidiaries	(1,168)	879	419
Earnings (loss) for the period	20,430	41,146	(21,321)
Dividends on preferred shares	3,128	3,127	3,127
Earnings (loss) attributable to common shares	$ 17,302	$ 38,019	$ (24,448)
Earnings (loss) per common share (note 1)	$ 0.10	$ 0.21	$ (0.14)
METAL SALES (tonnes, except precious metal revenues and silver)			
INO – Nickel	18,768	17,137	14,780
– Copper	15,627	13,634	11,470
– Precious metal revenues (thousands)	$ 28,479	$ 30,888	$ 31,173
Kidd Creek – Zinc (including metal in concentrate)	35,073	39,118	34,508
– Copper (including metal in concentrate)	25,410	24,096	29,699
– Silver (thousands of ounces)	378	1,124	986
Nickel in ferronickel	543	7,460	6,279
Collahuasi – Copper (including metal in concentrate)	42,029	53,348	42,390
Lomas Bayas – Copper	15,939	14,324	14,402
AVERAGE PRICES REALIZED (U.S.$ per pound, except silver)			
Nickel	$ 2.84	$ 3.23	$ 3.23
Ferronickel	2.68	3.12	3.22
Copper	0.74	0.75	0.67
Zinc	0.39	0.39	0.38
Silver (per ounce)	4.44	4.70	4.70
Exchange rate before hedge (U.S.$1=Cdn$)	$ 1.60	$ 1.56	$ 1.56
Exchange rate after hedge (U.S.$1=Cdn$)	$ 1.58	$ 1.56	$ 1.55

Note: 1. See note 10(c) to the Consolidated Financial Statements.

		2001				
4th Qtr.	Year	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year
$ 695,065	**$ 2,394,035**	$ 532,466	$ 569,903	$ 522,192	$ 513,688	$ 2,138,249
526,778	**1,732,828**	409,791	386,808	399,681	397,070	1,593,350
35,291	**136,388**	30,071	27,214	30,357	33,624	121,266
12,796	**88,337**	14,453	18,741	23,072	32,795	89,061
64,172	**260,367**	57,808	57,531	61,764	64,689	241,792
6,136	**33,693**	5,543	9,918	12,501	11,568	39,530
3,683	**12,941**	3,525	3,765	3,528	6,101	16,919
(8,712)	**(7,200)**	(5,671)	5,810	14,180	(4,046)	10,273
640,144	**2,257,354**	515,520	509,787	545,083	541,801	2,112,191
54,921	**136,681**	16,946	60,116	(22,891)	(28,113)	26,058
22,218	**88,198**	21,531	20,042	21,880	23,220	86,673
32,703	**48,483**	(4,585)	40,074	(44,771)	(51,333)	(60,615)
(214)	**(24,819)**	(9,512)	(16,061)	(20,049)	(29,780)	(75,402)
(182)	**(52)**	325	338	(820)	(1,023)	(1,180)
33,099	**73,354**	4,602	55,797	(23,902)	(20,530)	15,967
3,127	**12,509**	2,970	2,971	2,970	3,127	12,038
$ 29,972	**$ 60,845**	$ 1,632	$ 52,826	$ (26,872)	$ (23,657)	$ 3,929
$ 0.17	**$ 0.34**	$ 0.01	$ 0.30	$ (0.15)	$ (0.13)	$ 0.02
177,092	**177,022**	176,977	176,977	176,977	176,977	176,977
$ 52,023	**$ 146,636**	$ (3,032)	$ 64,605	$ 18,594	$ 4,439	$ 84,606
(1,813)	**922**	5,089	7,013	(12,778)	(17,499)	(18,175)
50,210	**147,558**	2,057	71,618	5,816	(13,060)	66,431
(23,800)	**(77,750)**	(6,158)	(14,553)	(18,375)	(24,903)	(63,989)
35,098	**132,131**	35,416	32,177	25,921	28,840	122,354
8,094	**27,963**	—	—	4,814	2,804	7,618
19,392	**82,344**	29,258	17,624	12,360	6,741	65,983
(14,681)	**(93,221)**	(14,369)	(29,126)	(41,067)	(21,794)	(106,356)
54,921	**136,681**	16,946	60,116	(22,891)	(28,113)	26,058
22,218	**88,198**	21,531	20,042	21,880	23,220	86,673
(214)	**(24,819)**	(9,512)	(16,061)	(20,049)	(29,780)	(75,402)
(182)	**(52)**	325	338	(820)	(1,023)	(1,180)
33,099	**73,354**	4,602	55,797	(23,902)	(20,530)	15,967
3,127	**12,509**	2,970	2,971	2,970	3,127	12,038
$ 29,972	**$ 60,845**	$ 1,632	$ 52,826	$ (26,872)	$ (23,657)	$ 3,929
$ 0.17	**$ 0.34**	$ 0.01	$ 0.30	$ (0.15)	$ (0.13)	$ 0.02
20,468	**71,153**	12,305	16,701	17,201	19,032	65,239
13,764	**54,495**	5,870	7,213	9,784	11,647	34,514
$ 26,526	**$ 117,066**	$ 53,827	$ 61,085	$ 36,099	$ 40,042	$ 191,053
39,719	**148,418**	36,599	38,088	34,613	32,371	141,671
31,370	**110,575**	29,686	26,796	23,316	25,345	105,143
1,235	**3,723**	1,004	613	858	781	3,256
7,164	**21,446**	7,226	7,024	5,550	4,772	24,572
49,757	**187,524**	47,007	49,150	47,694	48,007	191,858
15,600	**60,265**	—	—	13,149	14,266	27,415
$ 3.28	**$ 3.14**	$ 3.18	$ 3.13	$ 2.67	$ 2.36	$ 2.79
3.19	**3.16**	3.19	2.97	2.76	2.29	2.85
0.72	**0.72**	0.77	0.75	0.66	0.65	0.70
0.38	**0.39**	0.50	0.46	0.41	0.38	0.44
4.54	**4.61**	4.54	4.41	4.21	4.35	4.39
$ 1.57	**$ 1.57**	$ 1.52	$ 1.55	$ 1.54	$ 1.58	$ 1.55
$ 1.57	**$ 1.56**	$ 1.49	$ 1.52	$ 1.52	$ 1.54	$ 1.52

CORPORATE GOVERNANCE PRACTICES

INTRODUCTION

Falconbridge Limited's Board of Directors believes that effective corporate governance contributes to improved corporate performance and enhanced shareholder value. The governance of the Corporation is the responsibility of Falconbridge's Board of Directors and six committees of the Board: the Audit Committee, the Corporate Governance and Nominating Committee, the Environment, Safety and Health Committee, the Human Resources and Compensation Committee, the Independent Directors' Committee, and the Pension Investment Committee.

BOARD MANDATE

The Board is responsible for supervising the management of the business and affairs of Falconbridge and to act with a view to the best interests of the Corporation. As part of the merging of certain management and business functions of Falconbridge and Noranda Inc., the Board has adopted specific policies and guidelines. These policies and guidelines ensure that the allocation of both the costs related to these common areas, as well as the allocation of new business opportunities, are fair and equitable to the Corporation.

The Board assumes the following stewardship responsibilities: the adoption of a strategic planning and budgeting process; the identification of the principal risks of the Corporation's business and ensuring the implementation of appropriate systems to manage these risks; succession planning, including appointing, training and monitoring senior management; the integrity of the Corporation's internal control and management information systems; a public disclosure policy for the Corporation; and, the adoption of an inter-company transactions policy whereby the Independent Directors' Committee reviews transactions between Noranda and Falconbridge to ensure they are conducted on terms which are fair and equitable to Falconbridge and reflect fair market terms.

SHAREHOLDER FEEDBACK

The Board believes that management should speak for the Corporation in its communications with its shareholders. Falconbridge has an investor relations department that is dedicated to working closely with members of the investment community, institutional investors and individual shareholders. Shareholders receive timely dissemination of information and the Corporation has procedures in place to obtain and respond to feedback from its shareholders. The Board reviews Falconbridge's major communications with shareholders and the public, including quarterly press releases, the annual management information circular and the annual report.

EXPECTATIONS OF MANAGEMENT

The Board believes that management is responsible for the development of long-term strategies for the Corporation. Special meetings of the Board of Directors are held from time to time to deal with long-term strategies of the Corporation. The Board appreciates the value of having selected senior officers attend board meetings to provide information and opinions to assist the directors in their deliberations.

Falconbridge's full statement of corporate governance practices can be found in the 2002 Management Information Circular. For a copy, contact our Corporate Secretary's department at (416) 982-7111.

OFFICERS OF THE CORPORATION

Alex Balogh
Chairman of the Board

Aaron Regent
President &
Chief Executive Officer

Brent Chertow
President,
Canadian Copper & Recycling

Joseph Laezza
President, Nickel

Fernando Porcile
President, Copper

Michael Doolan
Senior Vice President &
Chief Financial Officer

Robert Burrow
Vice President
Finance – Nickel Operations

Dean Chambers
Treasurer

Sergio Chavez
President & General Manager
Ferronickel Operations

Denis Couture
Vice President
Communications & Public Affairs

Craig Duff
Assistant Treasurer

Anthony Hannaford
Senior Vice President
Technology

Allen Hayward
Vice President
Nickel Mining

David Holowack
Vice President
Strategy & Six Sigma

Olle Johansson
Vice President
Marketing & Sales

André Joron
Vice President
Human Resources

Peter Kukielski
Senior Vice President
Projects

Patrice Lafrance
Assistant Secretary

Ted Laks
Vice President
Performance/Six Sigma

Thomas Pugsley
Senior Vice President
Projects & Engineering

Katherine Rethy
Senior Vice President
Procurement, Logistics, Transportation
& Information Services

Martin Schady
Senior Vice President
Business Development

Paul Severin
Senior Vice President
Exploration

Julia Sievwright
Secretary & Assistant General Counsel

Jeffery Snow
Senior Vice President & General Counsel

Robert Telewiak
Vice President
Environment, Safety & Health

BOARD OF DIRECTORS

Alex Balogh
Chairman of the Board, Falconbridge Limited. *Deputy Chairman*, Noranda Inc. *Corporate Director.*
Appointed 1989. (2, 4)

Jack Cockwell
Co-Chairman, Brascan Corporation.
Appointed 1995. (4)

Robert J. Harding
Chairman, Brascan Corporation.
Appointed 2000. (1, 3, 6)

David Kerr
Executive Chairman, Noranda Inc.
Appointed 1989. (2, 4)

Edmund King
Deputy Chairman, Rockwater Capital Corporation.
Appointed 1994. (2, 4, 5, 6)

Neville Kirchmann
President & Chief Executive Officer, The Princess Margaret Hospital Foundation.
Appointed 1997. (1, 4, 5)

Mary Mogford
Corporate Director & Partner, Mogford Campbell Associates Inc.
Appointed 1995. (1, 2, 3, 5)

Derek Pannell
President & Chief Executive Officer, Noranda Inc.
Appointed 2001. (3, 6)

David Race
Corporate Director.
Appointed 1994. (1, 3, 5)

Aaron Regent
President & Chief Executive Officer, Falconbridge Limited.
Appointed 2002. (7)

James Wallace
President, Pioneer Construction, Inc.
Appointed 2001. (1, 5, 6)

Committees

1 Audit Committee
2 Corporate Governance and Nominating Committee
3 Environment, Safety and Health Committee
4 Human Resources and Compensation Committee
5 Independent Directors' Committee
6 Pension Investment Committee
7 Ex-officio non-voting member on all committees

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President & General Manager

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Derek Job, *President*

SHAREHOLDER INFORMATION

Stock Exchange Listing
Toronto, Trade Symbol:
FL (Common Shares)
FL.PR.A (Preferred Shares Series 2)

INDEX LISTINGS

S&P/TSX Composite
S&P/TSX Mining
S&P/TSX Materials
S&P/TSX MidCap

OUTSTANDING SHARES (MILLIONS)

December 31, 2002	
Common Shares	177.6
Preferred Shares Series 1	0.1
Preferred Shares Series 2	7.9

ANNUAL DIVIDEND PER SHARE

Common Shares	40¢
Preferred Shares Series 1	8¢
Preferred Shares Series 2	$1.4688

FALCONBRIDGE DIVIDEND POLICY

Falconbridge views common share dividends as an important part of a shareholder's return on investment. As a result, it aims to pay a common share dividend at all points of the economic cycle, as long as the payment does not impair the Corporation's financial position. It is expected that the common share dividend will increase or decrease to reflect the Corporation's operating results and financial position.

The preferred shares of each series issued by the Corporation rank in priority to the common shares with respect to the payment of dividends.

AUDITORS

Deloitte & Touche LLP
Toronto, Ontario

ANNUAL MEETING

The annual meeting of the shareholders will be held on April 17, 2003 at the Design Exchange, Trading Floor, 234 Bay Street, Toronto at 11 a.m.

TRANSFER AGENT & REGISTRAR

For information regarding dividend cheques, share certificates, stock transfers, etc., please contact:
Computershare Trust Company of Canada
Telephone: 1-800-564-6253
or (514) 982-7270
Fax: 1-888-453-0330 or (416) 263-9394
caregistryinfo@computershare.com

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Denis Couture
Vice-President
Communications & Public Affairs
Telephone: (416) 982-7020

VISIT OUR WEBSITE

Browse www.falconbridge.com to learn more about Falconbridge and the mining industry.

VERSION FRANÇAISE

La version française du rapport annuel sera fournie sur demande.

SHARE TRADING INFORMATION

	Quarter	Common Share Volume (Millions)	Low	High
2002	**First**	**24**	**$ 17.00**	**$ 18.89**
	Second	**28**	**17.95**	**20.95**
	Third	**23**	**14.25**	**20.15**
	Fourth	**22**	**13.30**	**16.30**
2001	First	23	$ 15.60	$ 19.30
	Second	25	16.00	20.15
	Third	17	14.00	17.25
	Fourth	26	13.90	15.93

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Printed in Canada

Falconbridge is committed to the responsible and profitable growth of our nickel and copper businesses.

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